



INTERNAL AUDIT DIVISION

REPORT 2016/063

Audit of the operations in Nepal for the
Office of the United Nations High
Commissioner for Refugees

Overall results relating to the effective
management of the operations in Nepal were
initially assessed as partially satisfactory.
Management has satisfactorily implemented
the audit recommendations.

FINAL OVERALL RATING: SATISFACTORY

2 June 2016

Assignment No. AR2015/141/08

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AUDIT REPORT

Audit of the operations in Nepal for the Office of the United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in Nepal 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. The UNHCR Representation in Nepal (hereinafter referred to as ‘the Representation’) started its operations in 1989. It cooperates with the Government of Nepal, as well as with Non-Governmental Organizations and other stakeholders, to protect, assist and find durable solutions for refugees and other persons of concern. In the absence of national asylum legislation, the Representation conducts registration and refugee status determination for non-Tibetan and non-Bhutanese refugees and facilitates the resettlement of vulnerable refugees. The main persons of concern to the Representation include: (i) 40,000 refugees and asylum seekers of whom 17,573 refugees from Bhutan are living in two camps in Beldangi and Sanischara; (ii) 498 mandate refugees and asylum seekers in urban areas; (iii) 4.6 million people without access to citizenship certificates; (iv) an estimated 15,000-20,000 Tibetan refugees; and (v) persons affected by the 7.8 magnitude earthquake that struck Nepal on 25 April 2015 and again on 12 May and left over 9,000 people dead, 23,000 injured and over 500,000 houses destroyed. In pursuance of the group resettlement of Bhutanese refugees that started in September 2006, the Representation resettled, up to November 2015, 100,706 Bhutanese refugees to eight different countries.
4. The Representation comprised of two offices: a Country Office in Kathmandu and a Sub-Office in Damak. It was headed by a Representative at the D-1 level and had 117 staff members, including 63 affiliate staff as of 31 October 2015. The Representation had expenditure of \$7.9 million in 2014 and \$6.4 million for the nine-month period up to September 2015 against a budget of \$11.0 million for 2015. To implement its projects, it worked with nine partners in 2014 and 12 in 2015.
5. Comments provided by UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNHCR governance, risk management and control processes in providing reasonable assurance regarding the **effective management of UNHCR operations in Nepal**.
7. The audit was added to the 2015 risk-based internal audit work plan for UNHCR as a new assignment due to risks related to the management of the emergency operation in Nepal following the earthquakes that occurred in April and May 2015.
8. The key controls tested for the audit were: (a) strategic planning; (b) project management; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Strategic planning** - controls that provide reasonable assurance that the Representation's strategic plans for its programme and protection activities are developed in alignment with the UNHCR global strategic priorities and in accordance with established planning procedures and guidelines.

(b) **Project management** - controls that provide reasonable assurance that there is proper planning and implementation as well as accurate and complete monitoring and reporting of the Representation's project activities.

(c) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the management of the operations in Nepal; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit from November 2015 to March 2016. The audit covered the period from 1 January 2014 to 31 October 2015. During the audit, OIOS visited the UNHCR offices in Kathmandu and Damak.

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 governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of UNHCR operations in Nepal**. OIOS made three recommendations to address the issues identified.

13. There was a need for the Representation to: (i) strengthen controls over monitoring of project activities undertaken directly and through Project Partnership Agreements; (ii) address control deficiencies in voucher preparation and review process, and petty cash management; and (iii) ensure full compliance with established rules and procedures in the areas of procurement planning, vendor management and contract management.

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **satisfactory**² as all three recommendations have been implemented satisfactorily.

¹ A rating of "**partially satisfactory**" means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

² A rating of "**satisfactory**" means that governance, risk management, and control processes are adequately designed and operating effectively to provide reasonable assurance regarding the achievement of control and/or business objectives under review.

Table 1
Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNHCR operations in Nepal	(a) Strategic planning	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(c) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: SATISFACTORY					

A. Strategic planning

Action was taken to determine the appropriate balance in workforce composition and to prepare detailed activities and strategies for key protection sectors identified in the road map for the Bhutanese caseload

15. UNHCR rules require the Representation to: maintain comprehensive and accurate registration data on its persons of concern; prepare for each year an operations plan that is aligned with UNHCR's global strategic priorities and based on the needs of the persons of concern following a participatory approach; include in the operations plan a protection strategy and prepare standard operating procedures for each priority protection activity; and develop a human resources strategy that ensures an appropriate balance between regular staff and affiliate staff.

16. The Representation had procedures in place for ensuring that its registration data was complete and accurate and used effectively for beneficiary selection and vulnerability assessment. In 2014 and 2015, the Representation, based on comprehensive needs assessments conducted through a participatory Age, Gender and Diversity Mainstreaming exercise, identified gaps in the protection of its persons of concern and prepared operations plans that were aligned with the global strategic priorities. The operations plans included the prioritized objectives for different population planning groups and the resources required for implementing them. The Representation set baselines, targets and performance indicators for its identified priorities. The Representation also prepared an annual protection strategy in September 2015 and developed related standard operating procedures to implement it.

17. However, the Representation did not: (i) undertake a comprehensive cost-benefit analysis of its deployment of affiliate staff who were involved in most of its key activities; (ii) prepare detailed strategies for addressing the protection needs in the livelihoods, shelter, and water, sanitation and hygiene sectors, as identified in a road map prepared for the Bhutanese caseload in January 2015; and (iii) integrate within its protection strategy the longer-term protection needs that were identified in the road map and needed to be met progressively by 2018.

18. Nonetheless, whilst the audit was still ongoing, the Representation took action to determine the number of affiliate staff required, based on a cost-benefit analysis, and prepared detailed activities to address the protection needs identified in the road map, in alignment with a new multi-year protection strategy. In view of the action taken by the Representation, OIOS did not make a recommendation.

B. Project management

The Representation took action to implement the requirements for selection and retention of partners and assessment of their procurement capacity and pre-qualification status

19. The UNHCR Implementing Partnership Management Guidance requires the Representation to: (i) select partners using a transparent and competitive process, through a wide solicitation of expression of interest; (ii) if operational context does not allow open competition, seek a waiver from the UNHCR Implementing Partnership Management Service (IPMS) in writing, demonstrating the urgent nature and justification for not following the prescribed process; and (iii) ensure that before procurement authority is designated to partners, they have the required capacity and that a cost-benefit analysis has been undertaken to assess if it is beneficial to entrust procurement to partners.

20. The Representation: (i) retained all its nine 2013 partners for 2014 and 2015 project years and selected three new partners from among members of the shelter cluster after seeking their expression of interest, but did not seek the required waiver from IPMS; and (ii) in 2014, designated procurement totalling \$442,481 to two partners who were not pre-qualified, but did not seek the required approval from its Local Committee on Contracts (LCC) before signing the agreements.

21. Nonetheless, whilst the audit was ongoing, the Representation took action to enforce the implementation of the UNHCR policy for selection and retention of partners. The actions taken included: (i) sending a waiver request to IPMS which concurred with the process followed by the Representation with an additional advice to post all future calls for expression of interest in the UNHCR Partner Portal for wider access by potential partners; (ii) preparing a plan for selection and retention of its partners for all project activities; and (iii) assessing the partners' capacity to procure on UNHCR's behalf. In view of the action taken by the Representation, OIOS did not make a recommendation.

The Representation needed to strengthen controls over monitoring of its project activities undertaken directly and through Project Partnership Agreements

22. According to the UNHCR Manual, the Representation is required to effectively monitor and report on the implementation of its project activities through a risk based and multi-functional approach. The UNHCR Operational Guidelines for Cash-Based Interventions require the Representation to establish adequate controls, through the development of local operating procedures, for identification of beneficiaries and delivery of cash assistance in a timely manner. The UNHCR Emergency Handbook requires the Representation to establish a strategy for distribution of non-food items (NFIs) and a robust monitoring system to ensure that distributed NFIs reach the targeted beneficiaries.

(a) Projects implemented directly by the Representation

23. The Representation directly implemented project activities involving \$1,079,912 in 2014 and \$1,519,450 in 2015 (up to October), including the acquisition of goods and services from commercial entities. These projects mainly included the payment of education grants to urban refugees for a total of \$646,812 in 2014 and 2015 and the distribution of NFIs valued at \$914,800 to persons affected by the 2015 earthquake. OIOS review of the controls in place over these activities indicated that the Representation did not: (i) prepare standard operating procedures for the payment of educational grants; (ii) reconcile amounts drawn from the bank for paying the educational grants against the amounts actually distributed; (iii) record the beneficiary identification number issued through *proGres* (the UNHCR application used for registering persons of concern) in the form containing the beneficiary's

acknowledgement of the grant received; (iv) prepare an NFI strategy specifying the standard list of items to be distributed and criteria for identifying the beneficiaries; and (v) receive distribution reports for 32 per cent of the plastic sheets and 51 per cent of the solar lamps handed over to the government authorities for distribution to earthquake affected victims.

(b) Projects implemented by partners

24. The Representation concluded Project Partnership Agreements with partners for \$3.0 million in 2014 and \$3.4 million in 2015 (up to October). The Representation established multi-functional monitoring teams that undertook regular financial and performance monitoring visits in line with a risk-based monitoring plan. However, OIOS review of the effectiveness of the Representation's monitoring controls over two of the three partners indicated that the Representation did not identify and require corrective action to be taken by the partners in the following instances: (i) one of the partners did not maintain adequate documentation in support of text books procured for \$20,135 in 2015; and (ii) the other partner did not have procedures in place to adequately control the cost and quality of medical services provided to refugees amounting to a total of \$194,563 in 2014 and 2015.

25. The above resulted as the Representation, despite having established a multi-functional team and an annual risk-based plan for monitoring, had not put in place procedures, including appropriate management supervision arrangements, to ensure the execution of the monitoring plan in a comprehensive and sustained manner. As a result, the Representation was exposed to the risk of financial loss and was unable to identify and address areas where project activities, implemented either directly or through partners, needed to be strengthened to maximize benefits to the persons of concern.

(1) The UNHCR Representation in Nepal should develop and implement local procedures to strengthen: (i) controls over directly implemented programme activities related to payment of education grants and distribution of non-food items; and (ii) monitoring of partners' procurement activities and controls over the provision of medical services to refugees.

UNHCR accepted recommendation 1 and stated that the Representation had: (i) prepared a plan to monitor directly implemented project activities; (ii) prepared a standard operating procedure for implementation and monitoring of education grants paid to urban refugees; (iii) obtained the distribution reports for 93 per cent of the plastic sheets and 96 per cent of the solar lamps handed over to the government for distribution following the April and May 2015 earthquakes in Nepal; and (iv) established procedures to monitor the partners' procurement activities and medical services in a sustained manner through a multi-functional approach. Based on the action taken and documentation provided by UNHCR, recommendation 1 has been closed.

The Representation took prompt action to strengthen fraud-related controls over resettlement activities

26. The UNHCR Resettlement Handbook requires the Representation to ensure proper maintenance of individual case files and restrict unauthorized access to files, appoint a resettlement fraud focal point, conduct an annual review of resettlement cases and a fraud vulnerability assessment of its resettlement activities, and establish a complaints box monitoring system that is easily accessible to refugees.

27. For managing its resettlement activities, the Representation developed standard operating procedures, put in place a robust process to review resettlement activities, used *proGres* to record and upload data on persons of concern, and trained its staff on resettlement activities including on anti-fraud issues. However, the Representation did not: (i) have procedures in place at the Sub-Office in Damak to ensure that all open entrances to offices were inaccessible to persons of concern and that resettlement files

were protected from physical hazards and their movement was monitored; (ii) appoint a resettlement fraud focal point; and (iii) establish a complaints box monitoring system at the Country Office in Kathmandu.

28. Nonetheless, whilst the audit was ongoing, the Representation addressed these control gaps by restricting access to the area containing resettlement files, appointing a fraud focal point, and establishing a complaints box monitoring system. In view of the action taken by the Representation, OIOS did not make a recommendation.

C. Regulatory framework

There were control deficiencies in voucher preparation and review and petty cash management

29. The UNHCR Financial Regulations and Rules require the Representation to: (i) ensure vouchers are stamped “Paid” upon payment; (ii) establish controls over monitoring of administrative expenditures, preparation and review of bank reconciliations, follow up on open items (receivables) and financial reporting to headquarters; (iii) design and maintain a Delegation of Authority Plan to mitigate the risk of incompatible functions; and (iv) implement and monitor controls over the management of petty cash.

30. The Representation had put in place adequate controls over monitoring of administrative expenditures, preparation and review of bank reconciliations, follow-up and closure of open items, and monthly financial reporting. The Representation had also established the petty cash ceiling and individual payment limits on an imprest basis in accordance with the needs of the office. However, OIOS review of 65 vouchers totalling \$3,241,757 (39 per cent of the total vouchered amount during the period covered) indicated the following control weaknesses:

- Eleven staff members had conflicting roles of spending approver and purchasing approver. Further, one staff had the role of receiver of goods and voucher preparer. In addition, 11 staff members approved vouchers pertaining to entitlements totalling \$108,199 to themselves. Although these payments were for justified purposes, this practice exposed the Representation to the risk of financial irregularities. Whilst the audit was ongoing, the Representation took prompt action to revise the Delegation of Authority Plan to eliminate the conflicting roles.
- The Representation did not stamp the paid vouchers “Paid” in any of the 65 cases tested to mitigate the risk of them being recycled.
- The Representation expensed \$220,837 under the account “Other Grant – Lump Sum Payment”, although the payments were for activities like settlement of petty cash, purchase of air tickets and payment of daily subsistence allowances for which other corresponding account codes existed in the accounting system.
- The Sub-Office in Damak did not: (i) maintain and reconcile the monthly cash balances; (ii) prepare petty cash vouchers; (iii) undertake surprise petty cash counts; and (iv) ensure that the duplicate key for the cash safe was kept by the Head of the Sub-Office.

31. The above weaknesses were due to inadequate supervision arrangements to enforce full compliance with UNHCR rules on financial management. They increased the exposure to financial risks, including loss of funds and inaccurate financial reporting.

<p>(2) The UNHCR Representation in Nepal should develop and implement an action plan for achieving full compliance with the UNHCR Financial Regulations and Rules which should include enhancing supervision arrangements over the voucher preparation and review process, use of correct account codes for expenditures, and petty cash management.</p>

UNHCR accepted recommendation 2 and stated that the Representation had taken specific actions to achieve full compliance with UNHCR Financial Regulations and Rules, to include stronger management supervision on voucher preparation and review/approval; appropriate use of accounting codes, handling of petty cash, and reiteration and closer oversight on compliance to the stated rules and regulations. Based on the action taken and documentation provided by UNHCR, recommendation 2 has been closed.

There was a need to ensure full compliance with established rules and procedures in the areas of procurement planning, vendor management and contract management

32. The Representation is required to comply with the UNHCR procurement rules and procedures, which include: (i) preparing an annual procurement plan according to the identified needs and initiating procurement activities in accordance with the procurement plan; (ii) establishing an effective vendor management system to be facilitated and overseen by the Vendor Review Committee (VRC); (iii) ensuring adequate oversight over the procurement activities through the LCC; (iv) allowing bidders to respond within 10-14 calendar days of the issue of the bid notification; and (v) obtaining authorization from the Representative for waiver from competitive bidding for contracts valued at below \$20,000.

33. The Representation issued 150 purchase orders valued at \$1.8 million in 2014 and 63 purchase orders valued at \$1.8 million in 2015 (as of October). Both in 2014 and in 2015, it prepared annual procurement plans. It had also constituted a VRC, which convened eight meetings, and an LCC, which convened five meetings involving eight cases totalling \$264,989. However, OIOS review indicated that the Representation: (i) procured 37 wheel chairs valued at \$13,623 in 2014 which it had not planned for; (ii) did not conduct performance evaluations of vendors and did not delete vendors it had not transacted with during the last three years from its vendor database; (iii) allowed only five days response time to bidders for procurement of 10 air-conditioners totalling \$13,035; and (iv) did not ensure that the Sub-Office Damak obtained the authorization of the Representative for waiver of competitive bidding when renewing the office building contract for \$18,028 in 2014.

34. The main reasons for the cited deficiencies were inadequate management supervision and oversight arrangements over the vendor management and procurement activities. Consequently, the Representation was at risk of not getting best value for money from its procurement of goods and services.

(3) The UNHCR Representation in Nepal should establish appropriate supervisory controls and procurement oversight arrangements to enforce full compliance with the rules and procedures regarding vendor registration and evaluation, competitive bidding and contract management.

UNHCR accepted recommendation 3 and stated that the Representation had reviewed and cleaned up its vendor database. The Representation had already in its previous response to OIOS indicated that it had developed a standard operating procedure on procurement and vendor management that indicated the oversight mechanisms and the staff members responsible for oversight at various stages of the processes, and put in place control procedures to ensure that bidders are given the required time to respond to invitations to bid. Based on the action taken and documentation provided by UNHCR, recommendation 3 has been closed.

IV. ACKNOWLEDGEMENT

35. 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) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Nepal for the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ³ / Important ⁴	C/ O ⁵	Actions needed to close recommendation	Implementation date ⁶
1	The UNHCR Representation in Nepal should develop and implement local procedures to strengthen: (i) controls over directly implemented programme activities related to payment of education grants and distribution of non-food items; and (ii) monitoring of partners' procurement activities and controls over the provision of medical services to refugees.	Important	C	Action completed	Implemented
2	The UNHCR Representation in Nepal should develop and implement an action plan for achieving full compliance with the UNHCR Financial Regulations and Rules which should include enhancing supervision arrangements over the voucher preparation and review process, use of correct account codes for expenditures, and petty cash management.	Important	C	Action completed	Implemented
3	The UNHCR Representation in Nepal should establish appropriate supervisory controls and procurement oversight arrangements to enforce full compliance with the rules and procedures regarding vendor registration and evaluation, competitive bidding and contract management.	Important	C	Action completed	Implemented

³ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

⁴ Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁵ C = closed, O = open

⁶ Date provided by UNHCR in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the operations in Nepal for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Nepal should develop and implement local procedures to strengthen: (i) controls over directly implemented programme activities related to payment of education grants and distribution of non-food items; and (ii) monitoring of partners' procurement activities and controls over the provision of medical services to refugees.	Important				Recommendation 1 is closed as per paragraph no. 27.
2	The UNHCR Representation in Nepal should develop and implement an action plan for achieving full compliance with the UNHCR Financial Regulations and Rules which should include enhancing supervision arrangements over the voucher preparation and review process, use of correct account codes for expenditures, and petty cash management.	Important	Yes	Representative with support from the Associate Admin/Finance Officer	30 May 2016	The UNHCR Representation in Nepal acknowledges this recommendation and provides explanation on the measures taken to address the specific issues raised by OIOS. Evidence was provided on the specific actions taken by the Representation to achieve full compliance with UNHCR Financial Regulations and Rules, to include the stronger management supervision on voucher preparation and review/approval; appropriate use of accounting codes, handling of petty cash and reiteration and closer oversight on compliance to the stated rules and regulations. The evidence should be seen as complementary to

⁷ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

⁸ Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of the operations in Nepal for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						the actions which have already been implemented and reported upon in earlier client responses. UNHCR requests closure of this recommendation.
3	The UNHCR Representation in Nepal should establish appropriate supervisory controls and procurement oversight arrangements to enforce full compliance with the rules and procedures regarding vendor registration and evaluation, competitive bidding and contract management.	Important	Yes	Representative with support from the Associate Admin/Finance Officer	30 May 2016	The UNHCR Representation in Nepal acknowledges this recommendation and provides explanation and evidence on the actions taken that addressed the issues of the vendor database raised by OIOS. Evidence was provided on the review, analysis and clean-up of the vendor database which have been undertaken with the support of HQs and completed on 24 May 2016. UNHCR requests closure of this recommendation.