OIOS
Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2018/143

Audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

There was a need to strengthen key controls in the areas of management of donor contributions and donor reporting

20 December 2018
Assignment No. AR2018/165/01

Audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees (UNHCR). The objective of the audit was to assess whether donor reporting, including individual donor reports. institutional reports and platforms ensured compliance with applicable donor contribution frameworks and agreements, and provided an adequate level of assurance, accountability and transparency to donors on the use of funds. The audit covered the period from 1 January 2016 to 31 December 2017.

UNHCR had implemented adequate processes for recording and communicating donor contributions, and the management of the donor agreements was satisfactory. However, there was a need to: strengthen UNHCR's donor grant agreement template and the documentation of internal reviews of agreements; enhance the process of defining donor reporting requirements, reflect reporting requirements in donor agreements, and maintain a repository of donor agreements and reporting templates; adequately record, track and monitor delivery of donor reporting requirements, and ensure existence of a centralized repository of donor reports; and enhance UNHCR's corporate systems to support tracking of implementation of activities and performance against specific donor requirements.

OIOS made six recommendations. To address issues identified in the audit, UNHCR needed to:

- Review its standard grant agreement template to incorporate omitted or outdated aspects, clarify processes and channels to communicate information on fraud and corruption to donors, and document and file in a central repository the outcomes of internal reviews carried out on donor agreements;
- Further encourage the use of standard reporting templates along with criteria for donor reporting, ensure sufficient consultation with country operations on the feasibility of donor reporting requirements during their negotiation, and ensure that donor reporting requirements reflect donors' expectations and are accurately spelled out in donor agreements;
- Ensure that donor agreements and reporting templates are available in a central repository accessible to country operations, in order to facilitate donor reporting and to inform an internal review of the multitude of donor reporting templates and discussions with donors on their possible standardization;
- Enhance the Contribution Management Module of the Managing for Systems, Resources and People system to ensure that donor reporting requirements are centrally and accurately captured and are effectively tracked, and implement periodic monitoring of donor reporting activities;
- Ensure the existence of a centralized repository of donor reports and related communications; and
- Enhance corporate systems and the Results-Based Management framework to further support donor reporting, and in the interim establish a process to define relevant mapping between information reported to donors and information recorded in UNHCR systems and frameworks.

UNHCR accepted the recommendations and initiated action to implement them; however, it accepted recommendations 2 and 6 only partially. Regarding recommendation 2, OIOS reiterates that UNHCR needs to define concrete actions to continue advocating for standard donor reporting, along with respective criteria, with other United Nations agencies and donors. Regarding recommendation 6, OIOS reiterates that establishing a mapping process between donor reporting and UNHCR systems and frameworks is essential to enhance auditability of donor reports and transparency to donors in case of differences between the two.

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I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees (UNHCR).

2.   UNHCR has depended on voluntary contributions since the office was created in 1951 to fund its mandated activities. The Financial Rules for Voluntary Funds Administered by the High Commissioner for Refugees stipulate that the High Commissioner may accept contributions offered in cash, kind or service, including those from sources other than Governments, which can be utilized for the purposes of carrying out the mandated functions of UNHCR. UNHCR assessed its financial needs to support the delivery of the Organization's protection and assistance mandate at $7.5 and $7.9 billion for 2016 and 2017, respectively. In the same period, it received a total of $7.9 billion in funding to provide for approximately 51 per cent of those financial needs. The contributions originated from 79 governments (77 per cent), the European Union (10 per cent), multiple donors from the private sector (10 per cent), 30 intergovernmental institutions and pooled funding mechanisms (two per cent), and the United Nations regular budget (one per cent). A total of $6.7 billion, or 85 per cent of the total contributions received were earmarked at the region, sub-region, situation, country or project level. A total of $68.7 million, or one per cent of the total contributions received, were in-kind contributions.

3.   Reliable and quality reporting to donors is essential to maintain the donors' trust and interest and ensure continued funding for the growing needs of persons' of concern to UNHCR within an increasingly competitive humanitarian circle. Donor reporting requirements may include a diverse range of modalities, such as financial and/or narrative reports, site visits, reviews, evaluations, and communications on fraud and corruption and how these allegations are dealt with, and may have to comply additionally with specific donor predefined formats, diverse indicators and varying frequencies. Donor reporting requirements are often stricter for earmarked contributions.

4.   Fundraising is a joint organizational effort, with the Division of External Relations (DER) leading those efforts. Within DER, the Donor Relations and Resource Mobilization Service (DRRM) is responsible for governmental, intergovernmental and United Nations donor bodies, and the Private Sector Partnerships Service (PSP) is responsible for private sector donors. DRRM and PSP are the main entities responsible for: interacting with donors and with other UNHCR divisions, regional bureaux and country operations in matters relating to resource mobilization and donor reporting; and preparing and disseminating institutional information to donors and the general public on funding received and its respective use. The Global Issues Unit (GIU), under the purview of the Regional Bureau for Europe but reporting functionally to DER, interacts specifically with the European Union on resource mobilization and donor reporting. DRRM, PSP and GIU comprised, at the time of this audit, 115 staff working under the respective Heads of Service (DRRM and PSP) and Unit (GIU), including approximately 40 donor focal points, mostly at the P-4, P-3 and P-2 levels (with varying job titles, including Senior or Associate Donor Relation Officers or Assistants, Private Sector Partnerships Officers, or External Relations Officers or Assistants), responsible more directly with donor relations and reporting.

5.   Comments provided by UNHCR are incorporated in italics.

II.   AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6.   The objective of the audit was to assess whether donor reporting, including individual donor reports as well as institutional reports and platforms, ensured compliance with applicable donor contribution frameworks and agreements and provided an adequate level of assurance, accountability and transparency to donors on the use of funds.

7.   This audit was included in the 2018 risk-based work plan of OIOS because of the critical importance for UNHCR to ensure accurate, timely and reliable donor reporting to demonstrate accountability, efficiency and effectiveness in the use of funding.

8.   OIOS conducted this audit from April to August 2018. The audit covered the period from 1 January 2016 to 31 December 2017. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the delivery of donor reporting, for cash and in-kind contributions received from all funding sources except the United Nations regular budget and United Nations/pooled funds, which included: (a) management of donor contributions; (b) donor reporting; (c) management of donor agreements; and (d) funding analysis and institutional information.

9.   The audit methodology included: (a) interviews with key UNHCR personnel; (b) interviews with two governmental donors and two private sector donors; (c) analytical review of data extracted from UNHCR corporate systems and institutional reports and platforms; (d) review of donor agreements, donor reports, and other relevant documentation related with 16 donor contributions (11 cash and 5 in-kind) in total of $692.7 million (8.8 per cent of UNHCR's total contributions for 2016 and 2017), which were selected using stratified sampling; and (e) delivery of questionnaires to two regional bureaux and 14 country operations, selected based on their level of funding and earmarking and their geographical location, so as to ensure representativeness of all regions where UNHCR operated. The questionnaires collected inputs on relevant aspects of the delivery of donor reporting activities in the field and at headquarters. OIOS obtained 13 responses (81 per cent response rate) to the questionnaires, i.e., from 12 country operations and one regional bureau.   The 12 respondent country operations received approximately $2 billion in contributions, or 25 per cent of UNHCR's total funding for 2016-2017.

10.   The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III.   AUDIT RESULTS

A.   Management of donor contributions

Need to strengthen the donor grant agreement template and documentation of internal reviews of donor agreements

11.   UNHCR Administrative Instructions on the Acceptance and Signing of Contribution Agreements (cash or in-kind) require that: (a) a prescribed standard grant agreement template is used where a donor agreement or framework is not already in place or if the donor does not require its own specific contractual format; and (b) DRRM, PSP or GIU review and approve grant agreements while consulting with other relevant divisions and services, namely with the Legal Affairs Service (LAS) for legal advice and the Division of Financial and Administrative Management (DFAM) in case of deviations from the standard financial clauses or financial implications from donor's requirements.

12.	All respondents to the OIOS questionnaire reported a good level of awareness and compliance with the requirement to have donor agreements reviewed and signed or cleared centrally at headquarters. Nonetheless, OIOS observed the following weaknesses in its review of donor contributions, and related agreements signed, that were sampled for the audit:

a.	**Departures from the UNHCR standard grant agreement**: None of the 16 contributions that OIOS reviewed used UNHCR's standard grant agreement template. OIOS observed significant and varying departures from UNHCR's standard clauses, namely on audit, settlement of disputes, termination, anti-terrorism and anti-corruption. The requirements related to fraud and corruption varied from agreement to agreement, and were not captured by UNHCR as part of specific donor reporting requirements. Furthermore, 7 out of 12 country operations stated in their response to the OIOS questionnaire that they would benefit from clarifications regarding UNHCR's process and channels for reporting fraud and corruption to donors. This was particularly important given the operations' obligations to report any instance of suspected fraud or other misconduct internally to the UNHCR Inspector General's Office (IGO) and the need for UNHCR to ensure, at the headquarters level, the integrity of the investigation and disciplinary processes while also ensuring coordinated communications to donors. Additionally, while most of the European Union grant agreements reviewed contemplated the possibility for the donor to conduct investigations directly, the conditions of those investigations and any required coordination with IGO were not defined.

Another example of an omission from the standard grant agreement template related to specific standards on anti-terrorism, although the requirement of the prohibition for UNHCR to engage with individuals or legal entities appearing on the Consolidated United Nations Security Council Sanctions List was specifically requested by donors and stated in two of the 16 donor agreements reviewed.

b.	**Outdated aspects of the UNHCR standard grant agreement:** The template included outdated references to the terms of application of programme support costs, and UNHCR had not approved a formal template for in-kind contributions even though it had developed some samples of templates for these contributions.

c.	**Lack of documentation on internal reviews of donor agreements**: DFAM and LAS confirmed their close cooperation with DER for the review of donor agreements and OIOS had access to email exchanges between the divisions/service regarding some of the reviews, but these, or at least their final outcomes, were not kept by DER in the contributions' files.

13.	OIOS understands that donors are in a better position than UNHCR to influence agreement templates and respective terms based on their own requirements to comply with national and corporate legislations. UNHCR also explained that negotiations of donor agreement terms did not proceed on the basis of discussions around isolated clauses, but rather considered relevant overall risks of the donor and of each agreement. Nonetheless, OIOS concluded that the benchmarks on donor agreements were either unclear or insufficiently robust to assist UNHCR staff during their review process and negotiations with donors. There was also a need to demonstrate due diligence by instituting a process to document the outcomes reached in the internal reviews carried out on donor agreements, and to ensure proper filing of related documents in a central repository.

> **(1)	The UNHCR Division of External Relations, in coordination with other relevant divisions and services at headquarters, should: (a) review UNHCR's standard grant agreement template to incorporate currently omitted or outdated aspects; (b) define internal guidance**

> **to clarify processes and channels to communicate information on fraud and corruption to donors; and (c) document and file in a central repository the outcomes of the internal reviews/clearance carried out on donor agreements.**
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> *UNHCR accepted recommendation 1 and stated that: (a) DER would review and update the UNHCR standard grant agreement by February 2019; (b) internal guidance on processes and channels to communicate information on fraud and corruption to donors would be issued by 30 June 2019; and (c) the substantive documentation related to review and clearance of donor agreements would be saved on e-Safe [the UNHCR electronic archiving system].* Recommendation 1 remains open pending receipt of the following endorsed/disseminated documents: (a) the revised standard grant agreement template; (b) guidance on processes and channels to communicate information on fraud and corruption to donors; and (c) procedures to document and file the outcomes of internal reviews/clearance of donor agreements.

<u>UNHCR had implemented adequate processes for recording and communicating donor contributions</u>

14.   Based on the review of relevant documentation of sampled contributions, their respective records in the Contribution Management Module of Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system, as well as the responses received to the audit questionnaire, OIOS concluded that the Regional Bureau for Europe for European Union funding and DER for all other funding generally: (a) communicated the receipt of donor contributions to relevant counterparts in the Organization, even though at times with delays; and (b) recorded donor contributions with due regard to donor conditions and restrictions on the use of the funds, e.g., donor earmarking and multiple year contributions affecting several financial periods, respected UNHCR's budget structure, and accurately recorded programme support costs. UNHCR had also implemented adequate segregation of roles in the definition of user access to the Contribution Management Module in MSRP for the recording and approval of contributions. For in-kind contributions, DER liaised with DFAM and other relevant divisions, e.g., the Division of Emergency, Security and Supply, to ensure adequate determination of the fair value of contributions.

B. Donor reporting

<u>Need to enhance the process of defining donor reporting requirements, reflect reporting requirements in donor agreements, and maintain a repository of donor agreements and reporting templates</u>

15.   The UNHCR standard grant agreement template stipulates that reporting requirements need to be discussed with the donor with the aim of defining reasonable and acceptable minimum reporting requirements, and that the agreed requirements need to be reflected in the donor agreement comprehensively and accurately. The same principles are expected to be followed when specific donor agreement formats are used.

16.   In the audit questionnaire, OIOS inquired with country operations and regional bureaux on their perspectives regarding the definition of donor reporting requirements. OIOS noted that 10 out of the 13 respondents thought that the reporting requirements agreed to were excessive and divergent, in particular when compared with their staffing capacity (in terms of number of and availability of dedicated staff to donor reporting functions) and the size of the contributions. Three country operations explained that they had to deliver detailed donor narrative and financial reports for contributions as low as $10,000 and as high as $654,000. Eight respondents stated that they had to work with 7 to 10 different formats of reports in 2016 and 2017, while five respondents worked with more than 10 different formats. Nine respondents had not seen any efforts materialized towards the standardization and reduction of reporting formats since

2016. Furthermore, 11 respondents confirmed that agreed reports were frequently supplemented with additional ad-hoc requests from donors, such as for field visits and monitoring/assessment missions, as well as meetings and briefings and information requests by email/phone. The frequency of those ad-hoc requests varied from operation to operation and from donor to donor, but could occur as often as weekly. One country operation that received $130.5 million in income from contributions in 2017 reported that in that year alone, in addition to the delivery of agreed reports, it had organized 150 meetings with individual donors and 10 joint donor briefings, and received on average two donor queries per week.

17.   In OIOS' opinion, the issues cited above happened due to the wide and increasing range of reporting requests from donors at times with little negotiation space. However, OIOS also observed the following that needed addressing:

    a. DER did not sufficiently consult with country operations during the definition of donor reporting requirements, notably in terms of the feasibility of reporting deadlines and respective details (only 5 out of 13 respondents to the audit questionnaire confirmed that they had been actively involved in the definition of donor reporting requirements during the negotiation of donor agreements).

    b. Apart from its publically available annual Global Report, UNHCR did not define a standard donor report template that it could submit during negotiations with donors. Furthermore, UNHCR was piloting the standard report template developed within the Grand Bargain initiative (the "8+3 template") still on a small scale, i.e., in three countries only[1].

    c. Objective metrics and criteria did not exist for donor reporting, such as a standard definition of the type and frequency of reports based on, for example, contribution thresholds and cost of donor reporting. This was consistent with the lack of a United Nations system approach on criteria for donor reporting. There was also a missed opportunity in this regard within the Grand Bargain forum, with ongoing discussions aiming only at the definition of a harmonized template and format for donor reporting (and so far, the "8+3 template" suited only narrative reporting), and not on the conditions of or criteria for its use.

    d. Donor reporting was not seen in a holistic manner in an interagency context, which would be relevant for UNHCR, in particular in internal displacement contexts and in view of the implementation of the Comprehensive Refugee Response Framework.

18.   UNHCR had not compiled information on the volume and costs of donor reporting. OIOS quantified the staff costs for 11 out of the 12 country operations that responded to the audit questionnaire and provided disaggregated information on their staffing allocations for donor reporting. Those 11 operations spent in 2017 a total of $2.7 million on donor reporting, or 0.3 per cent of the total income they received from contributions. This may not be a considerable sum, but the costs varied per contribution and would be much higher if they had included the full range of functions that effectively contributed to donor reporting (i.e., programme and technical staff, who drafted funding proposals, established tracking systems and provided information on the implementation of activities and on budget execution; and senior managers, who provided normally clearance of reports). Such cost allocations were not indicated consistently by all operations queried, except for two operations. In those two operations, OIOS confirmed that the overall cost of reporting increased respectively to 0.8 and 2 per cent of the income from contributions they received. This excluded headquarters costs in providing support to the field on

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[1] For 2017, in agreement with a major donor, UNHCR used the Grand Bargain "8+3 template" as follows: in the role of a funds recipient, for donor reporting to that same major donor in relation to its funding for Iraq; and in the role of donor, for partner reporting in Somalia, Iraq and Myanmar.

donor reporting activities, since those costs would presumably be covered through the standard allocation of programme support costs.

19.   OIOS also observed that the donor agreements of five cash contributions in total of $432.5 million from governmental and intergovernmental donors did not detail the donor reporting requirements in terms of contents, templates, and/or deadlines. One country operation who responded to the audit questionnaire stated that it reported to a major UNHCR donor (four contributions for this donor alone totaled $2.3 billion) on a quarterly basis, but the respective donor reporting requirements were not reflected in the donor pledge letters/contribution agreements, or in MSRP, since the reporting had been agreed locally by the Regional Office with the donor. One country operation referred to the need to have donor agreements and reporting templates available in a central repository accessible to country operations. Another country operation referred to the need for a clearer understanding of the donors' requirements, in order to tailor the reports accordingly. Two of the donors interviewed during the audit informed that they would be interested in receiving reporting on the impact/outcomes achieved of programmes and activities funded as compared with UNHCR's Global Strategic Priorities, instead of receiving isolated reporting on deliverables and outputs.

20.   As a result of the above weaknesses, UNHCR was subject to potentially significant donor reporting costs, practical constraints to comply with specific donor reporting requirements, and the re-direction of resources from UNHCR's core activities to donor reporting, leading to the reduction of the value of contributions and unmet donor expectations.

> **(2)   The UNHCR Division of External Relations should: (a) during discussions with donors, further encourage the use of standard reporting templates along with criteria for donor reporting; (b) ensure sufficient consultation with country operations on the feasibility of donor reporting requirements during their negotiation of donor agreements; and (c) ensure that donor reporting requirements reflect donors' expectations and are accurately spelled out in donor agreements or frameworks.**
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> *UNHCR accepted recommendation 2 only partially while stating that: (a) UNHCR systematically encouraged all donors to use the standard reporting templates, including the Global Report and country chapters available on Global Focus, but in many instances the receipt of funds was conditional to the use of the donors' formats. Donors had proprietary expectations and requirements often dictated by their national and corporate legislations that worked against harmonization, but DER would nevertheless continue to advocate for the use of standard templates; (b) where feasible and when there was room for negotiation, DER would consult with the field on the reporting requirements; and (c) while in most cases the reporting requirements were spelled out in donor agreements, DER would continue to strengthen systems to comprehensively capture all requirements in the agreements and frameworks, which would be further improved through introduction of more granular recording of reporting requirements in MSRP.* OIOS welcomes DER's commitment to continue advocating with other United Nations agencies and donors on the use of standard donor reporting templates, and encourages it to further attempt to capitalize on new or existing (possibly improved) reports (e.g., institutional and interagency) and discussions on the criteria for reporting within the Grand Bargain forum, possibly supported by objective steps taken internally in this regard (e.g., application of differentiated levels of programme support costs depending on the level of reporting). Recommendation 2 remains open pending receipt of information on: (a) objective plans for UNHCR to pursue the use of standard reporting templates along with criteria for donor reporting and/or specific examples of advocacy conducted by UNHCR in this regard; and (b) examples of cases where consultations were held with country operations and donor reporting requirements were detailed and clearly spelled out in donor agreements or frameworks and/or systems.

> **(3)** **The UNHCR Division of External Relations should ensure that donor agreements and reporting templates are available in a central repository accessible to country operations to facilitate donor reporting and to inform an internal review of the multitude of donor reporting templates and discussions with donors on the standardization of those templates.**
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> *UNHCR accepted recommendation 3 and stated that this was being addressed by enhancing the Contribution Management Module of MSRP.* Recommendation 3 remains open pending confirmation by UNHCR, and subsequent verification by OIOS, that both donor agreements and donor reporting templates are consolidated and available in a central repository also to country operations.

Need to adequately record, track, and monitor delivery of donor reporting requirements and ensure existence of a centralized repository of donor reports

21.   In order to support country operations and foster compliance with donor reporting requirements, DRRM, PSP and GIU were required to accurately capture the donor reporting requirements, inform relevant regional bureaux and country operations of the respective details, and verify delivery of required reports to donors.

22.   DRRM, PSP and GIU implemented the following mechanisms to capture and communicate donor reporting requirements to country operations and/or concerned headquarters divisions and regional bureaux, which were delivered through donor focal points in each service/unit: (a) individual communications (memoranda for the European Union contributions, as well as "Cash Flashes" emails), attaching copies of the donor agreements, and including overviews of the details of cash contributions received and reference to donor report types required and respective deadlines of submission to donors; (b) recording of contributions in the Contribution Management Module of MSRP, including information of earmarking and donor reporting requirements; and (c) email reminders of approaching reporting deadlines and information of specific reporting formats. In addition, country operations could access MSRP to consult contribution records, earmarking information, and donor reporting requirements.

23.   OIOS quantified 32 reporting instances due in 2016 and 2017 for the 11 cash contributions in total of $681.2 million that it reviewed. Each instance comprised one or several types of reports covering quarterly, semi-annual, or yearly periods of implementation, and included narrative/ performance reports, financial reports, certified financial statements, and/or online monitoring and evaluation reporting using the donor's platforms. OIOS could only confirm that UNHCR submitted the reports for 16 of those 32 instances (or 50 per cent). In 8 of the 16 instances, UNHCR submitted the reports with considerable delays, i.e. on average with 59 days of delay. In five cases, OIOS could not find documentation to justify these delays or the concurrence of donors to revise the submission dates.

24.   OIOS noted the following aspects that could justify some of the reporting omissions that it came across: (a) country operations or regional offices in some cases submitted the reports directly to donors; and (b) DER lacked standard filing procedures, which contributed to gaps with the filing of donor reports and of transmittal communications of reports to the donors. Moreover, the Contribution Management Module in MSRP, which was UNHCR's central repository of donor reporting requirements since May 2017, was not fully operational in the following respects: (a) provision of sufficient details on types (e.g., differentiation between financial reports and certified financial statements), formats and templates of reports; (b) specification of responsibilities for drafting and submission of reports; and (c) recording of the submission dates of donor reports, so as to serve as a tracking tool. In their responses to the audit questionnaire, 9 out of 12 country operations stated that they maintained locally developed tracking tools to monitor the submission of donor reports due to information gaps in MSRP and because they only had "read-only" access to the system and therefore could not record their own deliverables. UNHCR lacked,

therefore, an accurate overview of the volume and type of donor reports that it was required to deliver, and of its level of compliance with donor reporting.

> **(4)** **The UNHCR Division of External Relations should: (a) work with the Division of Information Systems and Telecommunications to enhance the Contribution Management Module of the Managing for Systems, Resources and People system and ensure that donor reporting requirements are centrally and accurately captured with sufficient level of details and clear assignment of responsibilities, and are effectively tracked; and (b) implement periodic monitoring of donor reporting activities (i.e., the extent that donor reports were delivered and reporting deadlines were met).**
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> *UNHCR accepted recommendation 4 and stated that this was being addressed by enhancing the Contribution Management Module of MSRP.* Recommendation 4 remains open pending receipt of: (a) evidence that MSRP has been enhanced to support adequate recording of donor reporting requirements; and (b) the description of procedures implemented and specific results of periodic monitoring of donor reporting activities carried out.
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> **(5)** **The UNHCR Division of External Relations should strengthen its process for filing of donor reports and related communications to ensure the existence of a centralized and complete repository of these documents, by defining and implementing standard filing procedures across all services and units.**
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> *UNHCR accepted recommendation 5 and stated that the existing standard filing procedures would be further improved and standard operating procedures would be updated for the filing of donor reports and related communications across all services and units.* Recommendation 5 remains open pending receipt of the standard filing procedures for donor reports and related communications defined and implemented across all services and units.

Need to enhance UNHCR's corporate systems to support tracking of implementation of activities and performance against specific donor requirements

25. UNHCR systems should effectively assist regional bureaux, regional offices, divisions, and country operations in their monitoring of contributions earmarked at country level and below, and respective donor reporting, while minimizing the need for labor-intensive locally maintained systems.

26. OIOS reviewed narrative and financial reports submitted to donors and compared them with relevant performance and financial information recorded in the following systems in an attempt to ascertain its accuracy: Focus, the UNHCR results-based management system; MSRP; and Global Focus, the UNHCR public reporting platform. However, the information reported in the donor reports and recorded in UNHCR systems was mostly not comparable, as shown in the examples below:

   a. In relation to a governmental donor contribution of $17 million for livelihoods support targeting three country operations in Africa, one of the country operations under the project reported in Focus lower figures for beneficiaries to whom it had delivered functional/life-skills training than the ones it had reported in the donor interim report for the period 1 January to 30 June 2016. The numbers reported in Focus were lower, even after considering that there was presumably funding from other sources for the same sectors/outputs, given the country's higher budgets and expenditures compared to the donor's contribution. OIOS also observed that for some identical indicators reported to the donor and in Focus, the reporting units differed and this could mostly be avoided. Specifically, one country operation reported to the donor on the 'number of households' receiving livestock support and in Focus on the 'number of persons of concern' receiving such

support. In other cases, there was no correspondence between the indicators reported to the donor and UNHCR standard indicators (e.g., 'number of hectares of forest maintained in the refugee hosting areas' and 'number of hectares of land for livestock feeding').

b. In relation to a private sector contribution of $57.9 million related to an education programme implemented in 14 different locations and at headquarters, it was difficult for OIOS to verify the implementation of the headquarters portion of the activities in total of $4.1 million. This was because there were no specific targets defined in the donor agreement and the Results-Based Management (RBM) indicators for headquarters were limited in scope.

c. In relation to two European Union contributions of $84.7 million, the implementation periods for the final reports were from 1 April 2016 to 31 March 2017, and for another contribution of $107.8 million the implementation period for the interim report was 1 January to 31 August 2017. These periods were inconsistent with the Focus standard reporting periods, which ran on a calendar year basis, with reporting dates at mid and year-end. The Focus system was not developed to run reports for flexible reporting periods.

27. One of the donors interviewed stated that data in donor reports was difficult to verify and that it would like to have more information on the role played by other donors in specific projects. Ten out of 12 country operations that responded to the audit questionnaire were of the opinion that UNHCR corporate systems were not effective in assisting them in tracking implementation and performance against donor contributions, in particular of earmarked funds and co-funded projects. The main gaps pointed out by the country operations in regards to UNHCR systems were the following: (a) inability to reflect contribution details at the budgeting stage in Focus; (b) inability to allocate commitments (i.e., encumbrances and pre-encumbrances) and expenditures to contribution details in MSRP; (c) inability to budget (in Focus) and to record expenditures (in MSRP) at the project and activity levels; (d) lack of regular updating of indicators, targets, baselines and achievements in Focus; (e) inability of RBM indicators (in Focus) to provide sufficient level of disaggregation requested by donors at times (e.g., age and gender of beneficiaries) or to measure impact; and (f) lack of a standard cost allocation system to apportion the offices' running and human resources costs to earmarked projects. Eleven of the 12 country operations confirmed that they had developed local tools (mainly in Excel) to overcome these gaps in UNHCR systems and to support donor reporting. One country operation stated that they had developed a local workaround to facilitate financial donor reporting, which consisted of the use of site codes in MSRP and a coding system in the payment voucher line descriptions to assist in identifying expenditure relevant to specific projects.

28. OIOS understands that UNHCR applied an overarching 'programme approach' and that its RBM and budget structures comprised the Situation, Rights Group, Objective, Output, Cost Centre, Population Planning Group, Goal, Implementer and Site levels, which had supported the development of the corporate systems in use, but differed in most cases from the donors' specific reporting outputs and indicators. Furthermore, as a substantial part of the donors' funding required monitoring at a micro level (i.e., contribution, project, activity), tracking of implementation ended up being inadequate as it was supported on cumbersome and unreliable manual systems, resulting in additional operational costs with reporting and possible delivery of inaccurate reports. Also, due to the high rotation of staff in UNHCR, there was a risk that such offline systems were not maintained after the departure of staff to support any possible verifications required by donors.

> **(6) The UNHCR Division of External Relations should: (a) in coordination with relevant divisions at headquarters and ensuring adequate representation from the field, articulate business requirements and provide inputs to enhance corporate systems and the Results-Based Management (RBM) framework to further support meaningful, accurate and**

> **reliable donor reporting; and (b) in the interim, during negotiations with donors and discussions with country operations, make further efforts to align the donors' funding proposals, budgets and reporting requirements with the RBM, Budget, Implementing with Partners, and Reporting frameworks, or establish relevant mapping between donor reporting and UNHCR systems and frameworks in case of deviations.**
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> *UNHCR accepted recommendation 6 only partially while stating that DER: (a) had been involved in providing input to the RBM team and would continue contributing to the process of defining business requirements of RBM systems to strengthen donor reporting; and (b) would continue to make efforts to align donor proposals, budgets and reporting with UNHCR's RBM system.* OIOS welcomes DER's confirmation of its continuing efforts with donors and country operations to align the donors' funding proposals, budgets and reporting requirements with UNHCR's RBM and reporting frameworks, and further reiterates that the mapping process recommended in case of deviations between donors' requirements and UNHCR reporting structures will only apply to those cases where such an alignment was not possible. OIOS believes that the process will not be work-intensive and will contribute to greater transparency and auditability of reports submitted to donors, considering the gaps and risks reported in paragraphs 26 to 28 above. Recommendation 6 remains open pending receipt of: (a) the business requirements defined and/or other evidence of specific inputs provided to support enhancements of UNHCR corporate systems and the RBM framework for improved donor reporting; and (b) evidence of implementation of a mapping process (e.g., a form) to support comparisons between information reported to donors and information recorded in UNHCR systems and frameworks, when those differ.

<u>Arrangements established at headquarters and in the field for clearance of reports prior to submission to donors were weakened by manual/offline reporting systems</u>

29.　　All 12 country operations who responded to the audit questionnaire confirmed that they had established arrangements for local clearance of donor reports prior to submission to donors. The level at which clearance was delivered varied from operation to operation, with Senior External Relations Officers, Senior Programme Officers and/or Assistant or Deputy Representatives providing clearance of reports (at the P-4 level and above). DFAM also supported the preparation and provided clearance of all financial reports that required the certification by the Controller, as well as of all reports submitted to the European Union. To achieve this, DFAM extracted from MSRP expenditure reports containing transactions eligible for a specific donor report, sent it to concerned country operations in a protected Excel file for those operations to identify relevant expenditure to be reported to the donor, and together with DER compiled the financial information to be reported to the donor as per agreed formats. Nonetheless, OIOS observed that for three contributions in total of $311 million, both from governmental and private sector donors, the certified financial statements requested by the donors were signed by the Director of DER, instead of the Controller. Also, the completeness of the clearance process provided by DFAM was weakened by the existence of manual/offline reporting systems in the field, that it was not in a position to verify. Since this issue was already addressed in the previous section of the report (paragraphs 26 to 28), OIOS is not raising a separate recommendation in this section.

C.　Management of donor agreements

<u>Management of donor agreements was satisfactory</u>

30.　　In the sample of contributions that OIOS reviewed, management of donor agreements in terms of the relation with donors was generally satisfactory. Even though there were omissions in the filing of documentation related to communication of delays in reporting, as noted in paragraph 23 above, the

donors interviewed by OIOS were generally satisfied with UNHCR's communication and diligent responses to their queries. There were no refunds processed or renegotiations of agreements (except for punctual amendments) in relation to the contributions reviewed, and UNHCR followed up with the donors in case of delayed payment of contributions.

D. Funding analysis and institutional information

<u>There was an opportunity to define a communication strategy to streamline communication platforms and institutional reports</u>

31.   UNHCR used several platforms to provide information to donors and the public in general about its activities, needs, and funding, including: its official website (http://www.unhcr.org) with information about its activities, partners, ongoing emergencies, news and briefings, statistics and operational data; Global Focus (http://reporting.unhcr.org), with operational information, population data, budgets and expenditures, contributions and publications; an operational portal (https://data2.unhcr.org/en/situations); and several publications, such as the Global Appeal, the Global Report, the Report on the Use of Unearmarked Funding, and the Global Strategic Priorities Progress Report. Three of the donors interviewed during the audit knew about some of these platforms and publications and confirmed that they had found them useful, for example, as sources of data on refugee populations and on specific projects. One of the donors, however, stated that it would have preferred to have the information more streamlined, easier to articulate, compact and easier to navigate, which would be useful especially in locations with lower internet connectivity. In OIOS' opinion, there was an opportunity for DER to define a communication strategy aiming at establishing clear targets and audiences, and enhancing, streamlining, and better articulating UNHCR communication platforms and institutional reports, in order to best support the Organization in communicating more effectively its organizational goals and achievements, and potentially contributing to reduce the burden on individual donor reporting.

IV.   ACKNOWLEDGEMENT

32.   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 arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	The UNHCR Division of External Relations, in coordination with other relevant divisions and services at headquarters, should: (a) review UNHCR's standard grant agreement template to incorporate currently omitted or outdated aspects; (b) define internal guidance to clarify processes and channels to communicate information on fraud and corruption to donors; and (c) document and file in a central repository the outcomes of the internal reviews/clearance carried out on donor agreements.	Important	O	Submission to OIOS of the following endorsed/disseminated documents: (a) the revised standard grant agreement template; (b) guidance on processes and channels to communicate information on fraud and corruption to donors; and (c) procedures to document and file the outcomes of internal reviews/clearance of donor agreements.	30 June 2019
2	The UNHCR Division of External Relations should: (a) during discussions with donors, further encourage the use of standard reporting templates along with criteria for donor reporting; (b) ensure sufficient consultation with country operations on the feasibility of donor reporting requirements during their negotiation of donor agreements; and (c) ensure that donor reporting requirements reflect donors' expectations and are accurately spelled out in donor agreements or frameworks.	Important	O	Submission to OIOS of information on: (a) objective plans for UNHCR to pursue the use of standard reporting templates along with criteria for donor reporting and/or specific examples of advocacy conducted by UNHCR in this regard; and (b) examples of cases where consultations were held with country operations and donor reporting requirements were detailed and clearly spelled out in donor agreements or frameworks and/or systems.	30 June 2019
3	The UNHCR Division of External Relations should ensure that donor agreements and reporting templates are available in a central repository accessible to country operations to facilitate donor reporting and to inform an internal review of the multitude of donor reporting templates and discussions with donors on the standardization of	Important	O	Submission to OIOS of a confirmation that both donor agreements and donor reporting templates are consolidated and available in a central repository also to country operations.	31 December 2019

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[2] 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.

[3] 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.

[4] C = closed, O = open

[5] Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
	those templates.				
4	The UNHCR Division of External Relations should: (a) work with the Division of Information Systems and Telecommunications to enhance the Contribution Management Module of the Managing for Systems, Resources and People system and ensure that donor reporting requirements are centrally and accurately captured with sufficient level of details and clear assignment of responsibilities, and are effectively tracked; and (b) implement periodic monitoring of donor reporting activities (i.e., the extent that donor reports were delivered and reporting deadlines were met).	Important	O	Submission to OIOS of: (a) evidence that MSRP has been enhanced to support adequate recording of donor reporting requirements; and (b) the description of procedures implemented and specific results of periodic monitoring of donor reporting activities carried out.	31 December 2019
5	The UNHCR Division of External Relations should strengthen its process for filing of donor reports and related communications to ensure the existence of a centralized and complete repository of these documents, by defining and implementing standard filing procedures across all services and units.	Important	O	Submission to OIOS of the standard filing procedures of donor reports and related communications defined and implemented across all services and units.	30 June 2019
6	The UNHCR Division of External Relations should: (a) in coordination with relevant divisions at headquarters and ensuring adequate representation from the field, articulate business requirements and provide inputs to enhance corporate systems and the Results-Based Management (RBM) framework to further support meaningful, accurate and reliable donor reporting; and (b) in the interim, during negotiations with donors and discussions with country operations, make further efforts to align the donors' funding proposals, budgets and reporting requirements with the RBM, Budget, Implementing with Partners, and Reporting frameworks, or establish relevant mapping between donor reporting and UNHCR	Important	O	Submission to OIOS of: (a) the business requirements defined and/or other evidence of specific inputs provided to support enhancements of UNHCR corporate systems and the RBM framework for improved donor reporting; and (b) evidence of implementation of a mapping process (e.g., a form) to support comparisons between information reported to donors and information recorded in UNHCR systems and frameworks, when those differ.	30 June 2019

STATUS OF AUDIT RECOMMENDATIONS

Audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
	systems and frameworks in case of deviations.				

APPENDIX I

Management Response

Management Response

Audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[1]/ Important [2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Division of External Relations, in coordination with other relevant divisions and services at headquarters, should: (a) review UNHCR's standard grant agreement template to incorporate currently omitted or outdated aspects; (b) define internal guidance to clarify processes and channels to communicate information on fraud and corruption to donors; and (c) document and file in a central repository the outcomes of the internal reviews/clearance carried out on donor agreements.	Important	Yes	Head of DRRM in collaboration with Senior Donor Relations Officer	30 June 2019	a) DER will review and update the UNHCR standard grant agreement by February 2019. b) Internal guidance on processes and channels to communicate information on fraud and corruption to donors will be issued by 30 June 2019. c) The substantive documentation related to review and clearance of donor agreements will be saved on e-Safe.
2	The UNHCR Division of External Relations should: (a) during discussions with donors, further encourage the use of standard reporting templates along with criteria for donor reporting; (b) ensure sufficient consultation with country operations on the feasibility of donor reporting requirements during their negotiation of donor agreements; and (c) ensure that donor reporting requirements reflect donors' expectations and are accurately spelled out in donor agreements or	Important	Partially	Head of DRRM in collaboration with Senior Donor Relations Officers and Donor Relations Officers	30 June 2019	a) We systematically encourage all donors to use the standard reporting templates, including Global Report and country chapters available on Global Focus. Unfortunately, in many instances the receipt of funds is conditional to the use of the donors' formats. Donors have proprietary expectations and requirements often dictated by their national and corporate legislations that work against harmonization. DER will nevertheless continue to advocate for the use of standard templates.

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[1] 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.

[2] 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 arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

	frameworks.					b) Where feasible and when there is room for negotiation DER will consult with field colleagues on reporting requirements. c) In most cases the reporting requirements are spelled out in the donor agreements. We will continue to strengthen systems to comprehensively capture <u>all</u> requirements in the agreements and frameworks. This will be further improved through introducing more granular recording of reporting requirements in MSRP.
3	The UNHCR Division of External Relations should ensure that donor agreements and reporting templates are available in a central repository accessible to country operations to facilitate donor reporting and to inform an internal review of the multitude of donor reporting templates and discussions with donors on the standardization of those templates.	Important	Yes	Head of DRRM in collaboration with Donor Relations Officer	31 Dec 2019	This is being addressed by enhancing the Contributions Module of MSRP.
4	The UNHCR Division of External Relations should: (a) work with the Division of Information Systems and Telecommunications to enhance the Contribution Management Module of the Managing for Systems, Resources and People system and ensure that donor reporting requirements are centrally and accurately captured with sufficient level of details and clear assignment of responsibilities, and are effectively tracked; and (b) implement periodic monitoring of donor reporting activities (i.e., the extent that donor	Important	Yes	Head of DRRM in collaboration with Donor Relations Officer	31 Dec 2019	This is being addressed by enhancing the Contributions Module of MSRP.

Management Response

Audit of the arrangements for reporting on the use of donor funds at the Office of the United Nations High Commissioner for Refugees

	reports were delivered and reporting deadlines were met).					
5	The UNHCR Division of External Relations should strengthen its process for filing of donor reports and related communications to ensure the existence of a centralized and complete repository of these documents, by defining and implementing standard filing procedures across all services and units.	Important	Yes	Head of DRRM in collaboration with Donor Relations Officer	30 June 2019	The existing standard filing procedures will be further improved and improvements documented through updated standard operating procedures for the filing of donor reports and related communications across all services and units.
6	The UNHCR Division of External Relations should: (a) in coordination with relevant divisions at headquarters and ensuring adequate representation from the field, articulate business requirements and provide inputs to enhance corporate systems and the Results-Based Management (RBM) framework to further support meaningful, accurate and reliable donor reporting; and (b) in the interim, during negotiations with donors and discussions with country operations, make further efforts to align the donors' funding proposals, budgets and reporting requirements with the RBM, Budget, Implementing with Partners, and Reporting frameworks, or establish relevant mapping between donor reporting and UNHCR systems and frameworks in case of deviations.	Important	Partially	Head of DRRM in collaboration with Donor Relations Officer	30 June 2019	a) DER has been involved in providing input to the RBM team and will continue contributing to the process of defining business requirements of RBM systems to strengthen donor reporting. b) DER will continue to make efforts to align donor proposals, budgets and reporting with UNHCR's RBM system.