



## INTERNAL AUDIT DIVISION

### REPORT 2013/147

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#### Audit of United Nations High Commissioner for Refugees operations in Iraq

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

FINAL OVERALL RATING:  
PARTIALLY SATISFACTORY

30 December 2013  
Assignment No. AR2013/131/01

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# AUDIT REPORT

## Audit of United Nations High Commissioner for Refugees operations in Iraq

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) Representation responsible for the management of operations in Iraq (hereafter referred to as 'the Representation').
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The Representation commenced operations in 1980 and was, as at 31 December 2012, assisting 734,590 individuals out of a population of concern of 1.7 million. The Representation was managed from a country office in Baghdad and had a sub-office in Erbil in northern Iraq with three field units, a field office in Basra in southern Iraq with nine field units, and a Liaison office in Amman. The Representation worked with 27 implementing partners in 2011 and 22 in 2012.
4. The expenditures of the Representation were \$94 million in 2011 and \$123 million in 2012. The Representation had 275 staff positions in Iraq, which included 93 international staff, 6 field service staff, 22 national officers, 133 general service staff and 21 posts funded through temporary assistance. Thirty-seven posts were vacant indicating a vacancy rate of 13.5 per cent.
5. Comments provided by the UNHCR are incorporated in *italics*

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of Representation's governance, risk management and control processes in providing reasonable assurance regarding **the effective management of UNHCR operations in Iraq**.
7. The audit was included in IAD's 2013 OIOS risk-based annual work plan because of the risks related to the significant 2011 and 2012 expenditures for UNHCR operations in Iraq, which totalled \$217 million. The last audit of the Representation was conducted in 2005.
8. The key controls tested for the audit were: (a) project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
  - (a) **Project management:** controls that are designed to provide reasonable assurance that there is accurate and complete monitoring and reporting of project activities.
  - (b) **Regulatory framework:** controls that provide reasonable assurance that UNHCR policies and procedures are adequate and are being effectively complied with.
9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit from May to June 2013. The audit covered the period from 1 January 2011 to 31 December 2012.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

12. The Representation’s governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding **the effective management of UNHCR operations in Iraq**. OIOS made eight recommendations to address issues identified in the audit.

13. Controls over project management were assessed as partially satisfactory. There was a need to strengthen arrangements for: (a) cash assistance paid directly by UNHCR; (b) monitoring of shelter projects implemented by partners; (c) financial monitoring of partner expenditures; (d) calculation of overhead support costs reimbursed to international partners; and (e) remittance of funds to partners.

14. Controls over regulatory framework were assessed as partially satisfactory because the Representation needed to: (a) address the weaknesses in its arrangements for procurement by consistently enforcing the requirement to follow competitive selection and enhancing related quality control processes; and (b) clarify value added tax exemption status on purchases. The Representation took corrective action to strengthen controls over warehousing by creating a new warehouse location in the Managing Systems, Resources and People system (MSRP), ensuring stock reports were prepared on a timely basis, and reviewing the level of stocks maintained.

15. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of seven important recommendations remains in progress.

**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 Iraq	(a) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially Satisfactory
	(b) Regulatory Framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially Satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## A. Project management

### The arrangements for cash assistance to beneficiaries needed to be strengthened

16. The Representation paid cash assistance to refugees in 2011 and 2012 aggregating to \$1.74 million, of which \$0.59 million was paid through partners and \$1.15 million was disbursed through direct implementation. The Erbil sub-office in the north prepared its own cash assistance Standard Operating Procedures (SOP) for the Kurdistan region whereas the Representation prepared separate SOP for central Iraq, which were only for direct implementation. Furthermore, the SOP were not shared with the partner implementing the cash assistance programme. As a result, the implementing partner followed procedures that differed from the SOP for the Representation. These shortcomings were due to the preparation of SOP, which were not harmonized for the entire country.

17. The Representation disbursed cash assistance to beneficiaries through an Iraqi bank. There were problems noted in the recording, reviewing and reconciling of these cash assistance disbursements as payments were made outside of the MSRP system, and distribution and reporting procedures were not agreed with the bank resulting in disagreements between UNHCR and the bank on which beneficiaries were paid and those remaining unpaid. Unreconciled amounts between the Iraqi bank and the amounts of payments to beneficiaries totalled \$39,500. This was due to inadequate review and reconciliation procedures within UNHCR.

**(1) The UNHCR Representation in Iraq should: (a) review, harmonize and consolidate cash assistance Standard Operating Procedures for all of Iraq and share them with concerned implementing partners; and (b) strengthen internal controls relating to the recording, review and reconciliation of cash assistance funds disbursed to beneficiaries under direct implementation.**

*The Representation accepted recommendation 1 and stated that pending the arrival of the expert, Representation decided to strengthen the existing systems in north and central regions. On arrival the expert would review the whole system for cash assistance in the country and have it harmonized and consolidated into one standard operating procedures for Iraq. The office strengthened its internal controls in relation to recording, review and reconciliation of cash assistance funds paid to the beneficiaries under direct implementation. Recommendation 1 remains open pending receipt of the revised Standard Operating Procedures for cash assistance, harmonized and consolidated for all of Iraq.*

### Technical certification and monitoring of shelter projects implemented by partners should be strengthened

18. The Representation paid \$67 million to partners in 2011 and 2012 for implementing shelter projects. The technical certification of shelter project construction work at the agreed stages, which is required by the Representation's shelter guidelines, was not done for shelter projects managed by sub-office Erbil. In addition, the Representation did not link instalment payments to implementing partners undertaking shelter construction to the actual rate of implementation on the ground to mitigate the risk of overpayments. This happened because the technical certification of construction work was not required before the payment of further instalments to the partners.

19. The Representation developed the Project Tracking Database software (PTD) as a monitoring tool for the implementation of these projects taking into consideration the security related movement restrictions in some areas of implementation. According to the Representation's shelter guidelines, it was the responsibility of programme officers and those delegated with monitoring tasks to ensure that

implementing partners updated data in the PTD. However, the programme staff in Baghdad did not create all projects in the PTD for the partners to input the tracking data. Also, programme staff in Erbil were not trained in the use of the system and did not have the necessary access rights to undertake their review and monitoring functions. As a result, the PTD was not properly used as a monitoring tool.

**(2) The UNHCR Representation in Iraq should strengthen monitoring of shelter projects implemented by partners by: (a) ensuring a linkage between the payment of instalments to implementing partners with the technical certification of work completed; and (b) providing training and access rights to programme and project control staff on the use of the Project Tracking Database.**

*The Representation accepted recommendation 2 and stated that it shared the shelter activities reports used in Baghdad with its office in Erbil, so that they would adopt the same certification procedures when reporting progress of work. In November 2013, the team was briefed on the certification requirements and the need to ensure it was implemented. The Representation trained both UNHCR and implementing partner staff on PTD in the North (Erbil and Dohuk). This followed a similar training in Baghdad in July 2013. Similar trainings would be conducted in the South and Centre. The SOP would be finalized and uploaded onto the database. This would be shared with colleagues and implementing partner's staff using the PTD. The trained staff with assigned roles in the PTD would be given access rights. Recommendation 2 remains open pending receipt of documentation showing linkage between the payment of instalments to implementing partners with the technical certification of work completed and provision of training and grant of access rights to the Project Tracking Database.*

#### The Representation's financial monitoring of partner expenditures should be strengthened

20. UNHCR policies required the Representation to conduct financial monitoring visits to assess the adequacy of implementing partner: accounting and budgetary control systems, internal controls, financial transactions, and compliance with agreed sub-project budgets. These policies also required the Representation to: determine the timing, frequency and scope of financial monitoring visits based on the nature, type and size of sub-projects for each implementing partner; and to ensure that financial verifications were done by project control rather than programme staff.

21. The Representation conducted 105 financial verifications of 22 implementing partners during 2012. Some of these verifications were done at UNHCR office premises due to security related movement restrictions. The Representation had not established adequate criteria for the selection of partner expenditures for verification, and prepared verification reports whose format and contents differed from one office to the other. Verifications for central and southern Iraq were also conducted by programme, rather than the required project control, staff because the project control function was not operating in that part of the country. These practices prevented the Representation from ensuring that its verification teams were conducting systematic and in-depth financial verifications that adequately covered high risk and high value transactions. They also prevented the Representation from identifying the following deficiencies, which OIOS observed at four implementing partners:

- a) Three partners, who handled sub-agreements valued at \$77 million, did not maintain accounting software and instead used Excel spreadsheets to prepare their accounts.
- b) The largest local partner did not maintain a cash book. The partner handled sub-agreements valued at \$27.4 million and undertook substantial salary and other cash transactions. The partner also used payment vouchers that were not numbered and sometimes

not dated; and double charged some staff costs to different sub-projects, which resulted in excess charges to UNHCR totaling \$48,400.

- c) A partner claimed \$331,090 in 2011 for transport allowances. The partner reported that it had assisted 755 students for six months with amounts ranging from \$30-\$50, which implied that the partner claimed more than its entitlement.
- d) Three partners did not use a point scoring system as recommended by the guidelines for complex tenders such as construction. These partners also did not consistently use open tenders for undertaking procurement. One partner used open tenders but not in all cases.
- e) The largest international partner, with a total budget of \$38.4 million for 2011 and 2012, adopted its own procurement procedures for bid evaluation, which were inconsistent with UNHCR procurement guidelines. These procedures gave an 85 per cent weightage to the price component and only 15 per cent for technical elements.
- f) Two partners made advance payments of up to 50 per cent of the contract value to contractors without necessary justifications, which exposed the Representation to the possibility of losses if the concerned contractors failed to deliver as per contract.

22. These weaknesses were due to a lack of an operational project control function and the prevailing security conditions that prevented the Representation from undertaking proper financial verifications.

**(3) The UNHCR Representation in Iraq should: (a) establish project control units that cover all regions of the country and conduct required systematic and in-depth financial verifications of implementing partners; and (b) undertake a review of the implementing partners visited by OIOS and recover any overpayments they have received from UNHCR.**

*The Representation accepted recommendation 3 and stated that for its planned recruitment of staff in project control unit in Baghdad the identified candidate for GL7 turned down the offer. In Erbil candidates who applied for both NOA and GL6 posts did not meet the minimum academic qualification required and the posts had been re-advertised for a third time. The Representation was considering strengthening the project control unit by recruiting additional staff and enhancing field visit to partner offices. Due to security constraints, the office will discuss with the bureau the option of sub-contracting a financial accounting firm that could provide closer follow up, as project control in the IPs offices, and report to the project control officer. The Representation office contacted the implementing partners visited by OIOS, reviewed their financial documents and informed them of their obligation to settle overpaid amounts. Recommendation 3 remains open pending receipt of: (a) documentation on the establishment and functioning of the project control function in accordance with UNHCR rules; and (b) the results of the review and recovery of overpaid amounts from partners.*

#### Incorrect calculation of Headquarters support costs for an international partner

23. UNHCR rules indicate that international partners are entitled to a seven per cent Headquarters overhead support cost. The rules also require the deduction of the local procurement portion, if it exceeds 30 per cent of the budget, in the computation of headquarters support costs. These rules were not followed in the case of one implementing partner resulting in an overpayment of \$182,000 in 2011. The overpayment was not detected due to the lack of proper review procedures.

**(4) The UNHCR Representation in Iraq should take action to strengthen its procedures for reviewing reimbursements of overhead support costs to international implementing partners, and recover the \$182,000 that was overpaid to an implementing partner in 2011.**

*The Representation accepted recommendation 4 and stated that it informed the implementing partners by email of the overpaid amount. The office would continue to follow-up with the IPs to clarify the basis for calculation of the overhead amount and to seek recovery, as needed. Meanwhile, acknowledging that certain aspects of overhead calculation were not clear to the partners and some field offices, UNHCR HQ had issued a new standard Project Partnership Agreement that had further clarified the basis of calculation of overhead, which would be effective from April 2014 onwards. In addition, the office developed a form to be used by all offices to ensure correct calculation of overhead support costs to international implementing partners. Recommendation 4 remains open pending receipt of documentation on recovery of the excess headquarters support costs paid to the partner.*

The arrangements for remitting funds to implementing partners should be reviewed

24. The Representation is required to ensure that the funds given to implementing partners are transferred and used in the most cost-effective manner. The total bank charges reported by implementing partners during 2011-2012 under the heading bank charges was \$508,000.

25. A review of the bank charges reported by one implementing partner, which had the major share of this expenditure item, indicated that its local bank charged 0.8 per cent in bank charges on the value of all incoming fund transfers from UNHCR Headquarters. A comparison made with the bank charges incurred by UNHCR for incoming funds transfers from Headquarters revealed that it was charged only 0.1 per cent on the value of incoming funds. This problem was not detected because the Representation had not reviewed the efficiency of banking arrangements relating to the transfer of funds to its partners so as to ensure that costs charged by the local banks were reasonable. This review could have resulted in estimated recurring annual savings of up to \$100,000.

**(5) The UNHCR Representation in Iraq should review the arrangements for the transfer of funds to implementing partners to ensure that they are cost effective.**

*The Representation accepted recommendation 5 and stated that it initiated the review of the fund transfer arrangements and the associated bank charges to its implementing partner and noted that the increased bank charges were due to the use of two separate bank accounts in respect of payments from UNHCR. UNHCR advised the IP that bank charges associated to only one bank account should normally be charged to UNHCR. Recommendation 5 remains open pending receipt of documentation showing the revised bank charges and the related financial savings.*

## **B. Regulatory framework**

Value Added Tax exemption was not obtained on the purchase of goods and services in central and southern Iraq

26. The Representation did not obtain VAT exemptions in central and southern Iraq for direct purchases and procurement made by implementing partners. This was due to lack of clarity on the



Representation's tax exemption status in these two regions, as the host country agreement had not been finalized.

**(6) The UNHCR Representation in Iraq should finalize the host country agreement to clarify its Value Added Tax exemption status in central and southern Iraq.**

*The Representation accepted recommendation 6 and stated that the draft host country agreement had been undergoing an internal clearance process. It was currently with the Shura Council but due to numerous competing priorities, the Council had yet to schedule it for debate. UNHCR Representation in Iraq shall continue to follow up with the Shura Council and would propose a new date for the meeting in January 2014. Recommendation 6 remains open pending receipt of the documentation on the status of VAT exemption for Central and Southern Iraq.*

Internal controls over procurement needed to be strengthened

27. The following exceptions were noted in the 25 sample purchase orders reviewed:

- a) The Representation used a waiver of competitive bidding in 11 of the 25 cases reviewed. In three cases, the value of each contract exceeded \$50,000 and the waivers for competitive bidding were incorrectly granted by the Local Committee on Contracts (LCC) instead of the Controller.
- b) In one case, the local frame agreement for quilts, fans, stoves and kerosene jerry cans was extended for a third year, at a value of \$4.5 million, and approved by the Committee on Contracts (CoC). However, the market survey requested by CoC to confirm the price advantage of the existing contracts was not undertaken by the Representation due to security conditions.
- c) In nine cases, relating to purchase of non-food items, the Representation had not established the necessary arrangements to undertake technical evaluations of samples at the pre-bidding stage and at the time of actual deliveries, which increased the likelihood of the acceptance of inferior quality goods.
- d) In one case, the technical evaluation for the ITB for mattresses with a value of \$7.4 million was not done correctly as one bidder was considered qualified despite his sample not complying with the required specifications.
- e) For another case, relating to the supply of water, the purchase order file was incomplete, and offers and bid evaluations were not traceable.
- f) In Erbil, payments amounting to \$56,755, which were made to local travel agencies for air tickets, were not based on purchase orders and regular procurement processes.

28. These shortcomings were due to inadequate oversight over procurement activities.

**(7) The UNHCR Representation in Iraq should take action to strengthen its oversight of procurement and ensure that: (a) quality control procedures are strengthened by undertaking technical evaluation of samples; and (b) required competitive selection processes are followed for all procurements cases.**

*The Representation accepted recommendation 7 and stated that it planned to strengthen its*

*oversight of procurement quality control procedures by identifying a quality control firm in Iraq in the first quarter of 2014. Although the procurement process had been enhanced, UNHCR Offices in Baghdad, including the main office in Green Zone and the one located in the vicinity of the Baghdad International Airport (BIAP), did not always have access to appropriate competitive bidding opportunities due to the lack of competent vendors. Recommendation 7 remains open pending receipt of documentation on action planned to strengthen oversight on procurement including quality control and compliance with competitive selection processes.*

Action taken to strengthen controls over warehouse management

29. UNHCR rules require that non-food item stocks should be maintained at a level adequate to meet six months requirements. There was an accumulation of non-food item stocks at UNHCR warehouses and at the extended distribution points valued at \$7 million which exceeded the required threshold. This happened because stock replenishment requests did not take into account stock levels to be maintained and the expected levels of distribution. The excess inventory levels exposed the Representation to risks related to higher holding costs and possible stock obsolescence.

**(8) The UNHCR Representation in Iraq should strengthen controls over warehousing by establishing a proper replenishment mechanism, reviewing the level of stocks held at its warehouses and minimizing the stock levels at the extended distribution points managed by its partners to minimize holding costs and to mitigate against risks arising from loss, theft and fire.**

*The Representation accepted recommendation 8 and stated that it had taken measures to strengthen controls over warehousing by the creation of a new business Unit in MSRP (IRQD1) for Dohuk office, in November 2013. The warehouse management implementing partner in Baghdad/ Erbil was replaced with a commercial service provider for efficient warehouse management in the two offices. The office maintained the level of stock to that of the contingency planning for each location. The one based in Baghdad is to meet reaction capacity: 1000 tents, 3000 NFI kits. In the north this is to cover at least needs for 100,000 individuals to be based in Erbil. This was to cater for reaction capacity for displacement or hazards such as floods. Based on the action taken by UNHCR, recommendation 8 has been closed.*

#### IV. ACKNOWLEDGEMENT

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

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

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of United Nations High Commissioner for Refugees operations in Iraq

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	The UNHCR Representation in Iraq should (a) review, harmonize and consolidate cash assistance Standard Operating Procedures for all of Iraq and share them with concerned implementing partners; and (b) strengthen internal controls relating to the recording, review and reconciliation of cash assistance funds disbursed to beneficiaries under direct implementation.	Important	O	Receipt of the revised Standard Operating Procedures for cash assistance, harmonized and consolidated for the country.	30 April 2014
2	The UNHCR Representation in Iraq should strengthen monitoring of shelter projects implemented by partners by: (a) ensuring a linkage between the payment of instalments to implementing partners with the technical certification of work completed; and (b) providing training and access rights to programme and project control staff on the use of the Project Tracking Database.	Important	O	Receipt of documentation showing linkage between the payment of instalments to implementing partners with the technical certification of work completed and provision of training and grant of access rights to the Project Tracking Database.	31 January 2014
3	The UNHCR Representation in Iraq should: (a) establish project control units that cover all regions of the country and conduct required systematic and in-depth financial verifications of implementing partners; and (b) undertake a review of the implementing partners visited by OIOS and recover any overpayments they have received from UNHCR.	Important	O	The establishment and functioning of the project control function; and results of the review and recovery of overpaid amounts from partners.	30 June 2014
4	The UNHCR Representation in Iraq should take action to strengthen its procedures for reviewing	Important	O	Recovery of the excess headquarters support costs paid to a partner.	30 April 2014

<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 United Nations High Commissioner for Refugees in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of United Nations High Commissioner for Refugees operations in Iraq

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>
	reimbursements of overhead support costs to international implementing partners, and recover the \$182,000 that was overpaid to an implementing partner in 2011.				
5	The UNHCR Representation in Iraq should review the arrangements for the transfer of funds to implementing partners to ensure that they are cost effective.	Important	O	Receipt of documentation showing the revised bank charges and the related financial savings.	31 July 2013
6	The UNHCR Representation in Iraq should finalize the host country agreement to clarify its Value Added Tax exemption status in central and southern Iraq.	Important	O	Receipt of the documentation on the status of VAT exemption for Central and Southern Iraq.	31 December 2014
7	The UNHCR Representation in Iraq should take action to strengthen its oversight of procurement and ensure that: (a) quality control procedures are strengthened by undertaking technical evaluation of samples; and (b) required competitive selection processes are followed for all procurements cases.	Important	O	Receipt of documentation on action planned to strengthen oversight on procurement including quality control and compliance with competitive selection processes	31 March 2014
8	The UNHCR Representation in Iraq should strengthen controls over warehousing by establishing a proper replenishment mechanism, reviewing the level of stocks held at its warehouses and minimizing the stock levels at the extended distribution points managed by its partners to minimize holding costs and to mitigate against risks arising from loss, theft and fire.	Important	C	Action completed	Implemented

# **APPENDIX I**

## **Management Response**

## MANAGEMENT RESPONSE

## Audit of United Nations High Commissioner for Refugees operations in Iraq

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Iraq should (a) review, harmonize and consolidate cash assistance Standard Operating Procedures for all of Iraq and share them with concerned implementing partners; and (b) strengthen internal controls relating to the recording, review and reconciliation of cash assistance funds disbursed to beneficiaries under direct implementation.	Important	YES	a) Programme officer	April 2014	<p>Pending the arrival of the expert, Representation decided to strengthen the existing systems in north and central regions as below. On arrival the expert will review the whole system for cash assistance in the Country and have it harmonized and consolidated into one standard operating procedures for Iraq.</p> <p>In the meantime, the systems are strengthen as follows:</p> <ul style="list-style-type: none"> <li>- In the north, the one time cash assistance was distributed through an IP till end of June. The program was suspended till early November when it resumed in the same way with increased control. The assessment of beneficiaries done by the partner and a list including beneficiary identity documents are sent to UNHCR where they are reviewed and approved by a panel of Protection, Programme, field and community services staff .</li> <li>- In the central region, the office started in June the implementation of payment by cheques, to each individual. The SOP was established and one IP was charged with its implementation. However the following constraints were identified: 1) signatures on</li> </ul>

<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

## Audit of United Nations High Commissioner for Refugees operations in Iraq

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
				a) Assistant Rep. Operation  b) Finance officer & Project control officer	Dec 2013  June 2013	<p>the cheques, 2) Names in Arabic, 3) delay in implementation (too centralized system) by the bank.</p> <p>The office completed terms of reference for the cash and voucher expert who is to investigate the option of using smart cards. Candidates for the post were interviewed by panel from Hqs, Baghdad and Erbil offices late December 2013.</p> <p>The office strengthened its internal controls in relation to recording, review and reconciliation of cash assistance funds paid to the beneficiaries under direct implementation. This included:</p> <p>Payment by cheque in beneficiary names, each beneficiary is issued identity document by protection unit to be used when issuing the cheque by UNHCR and when getting paid at the bank. A local currency (Dinar) account was opened early Dec 2013 and is to be used effective next year.</p> <p>a) Reconciliation of \$39,500 outstanding amount b) Reduction of outstanding balance to \$ 400 against TBI</p>
2	The UNHCR Representation in Iraq should strengthen monitoring of shelter projects implemented by partners by: (a) ensuring a linkage between the payment of instalments	Important	YES	a) Snr. Field Coordinator & Programme officer	Nov 2013	The UNHCR Representation in Iraq shared the shelter activities reports used in Baghdad with its office in Erbil, so that it adopts the same certification procedures when reporting progress of work. In November

## MANAGEMENT RESPONSE

## Audit of United Nations High Commissioner for Refugees operations in Iraq

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	to implementing partners with the technical certification of work completed; and (b) providing training and access rights to programme and project control staff on the use of the Project Tracking Database.			b) Deputy Representative	Nov 2013	2013, the team was briefed on the certification requirements and the need to ensure it is implemented.  The Representation has trained both UNHCR and implementing partner staff on PTD in the North (Erbil and Dohuk), on 18th and 24 <sup>th</sup> November 2013 respectively. This followed a similar training in Baghdad in July 2013. The trained staff was given access to PTD.
				b) Deputy Representative	Jan 2014	Similar trainings will be conducted in the South and Centre. The SOP will be finalised and uploaded onto the database. This will be shared with colleagues and implementing partner's staff using the PTD. The trained staff with assigned roles in the PTD will be given access rights.
				b) Representative	Jan 2014	The representation till now is using PTD as a pilot project due to security situation in the project areas where access was difficult; it has several challenges including the number of users who can access it at the same time. The office will review this option when the updated version is in use early next year. This will enable the office to decide whether it is still relevant to use it in a situation where the staff has full access to monitoring the activities in the field.
3	The UNHCR Representation in Iraq should: (a) establish project control	Important	YES	a) Project control officer	a) August 2013	The UNHCR Representation in Iraq followed up with its planned recruitment of



## MANAGEMENT RESPONSE

## Audit of United Nations High Commissioner for Refugees operations in Iraq

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	units that cover all regions of the country and conduct required systematic and in-depth financial verifications of implementing partners; and (b) undertake a review of the implementing partners visited by OIOS and recover any overpayments they have received from UNHCR.			a) Representative	a) June 2014	<p>staff in project control unit for both Baghdad and Erbil offices. In Baghdad the identified candidate for GL7 turned down the offer in Sept 2013. In Erbil candidates who applied for both NOA and GL6 posts did not meet the minimum academic qualification required in two consecutive advertisements in the last six months. The posts have been re-advertised third time.</p> <p>During project control monitoring visits in October /November 2013, it was found out that majority of national staff who work in Finance/Accounts departments of implementing partners do not have relevant qualification. This confirms earlier reports by external auditors (implementing partners) that the capacity of Finance/Accounts staff of implementing partners is very low. These impacts negatively on the quality of financial documentation and reports provided to UNHCR.</p> <p>Therefore, the representation is considering:  a) to review grades or salary scale of the finance staff of IPs in order to ensure that they can recruit competent finance officers;  b) to strengthen project control unit by recruiting additional staff once details are agreed and taking into account the aforesaid constraints. c) to enhance field visit at the partner offices: due to security constraints, the office will discuss with the bureau the</p>

## MANAGEMENT RESPONSE

## Audit of United Nations High Commissioner for Refugees operations in Iraq

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
				b) Project control officer	b) Nov 2013	<p>option of sub-contracting a financial accounting firm that could provide closer follow up as project control in the IPs offices and report to the project control officer. The overall structure in the Country would need to be reviewed.</p> <p>The Representation office contacted the implementing partners visited by OIOS and reviewed their financial documents. During the visit they were informed of their obligation to settle overpaid amounts.</p>
4	The UNHCR Representation in Iraq should take action to strengthen its procedures for reviewing reimbursements of overhead support costs to international implementing partners, and recover the \$182,000 that was overpaid to an implementing partner in 2011.	Important	YES	Programme officer	July 2013	<p>The Representation informed the two implementing partners by email in Sept 2013 of the overpaid amount. The office will continue to follow-up with the IPs to clarify the basis for calculation of the overhead amount and to seek recovery, as needed. Meanwhile, acknowledging that certain aspects of overhead calculation were not always clear to the partners and some field offices, UNHCR HQ has issued a new standard Project Partnership Agreement (PPA) that has further clarified the basis of calculation of overhead, which will be effective with the PPAs signed from April 2014 onwards.</p> <p>In addition, the office developed a form to be used by all offices to ensure correct calculation of overhead support costs to international implementing partners.</p>
5	The UNHCR Representation in Iraq	Important	YES	Programme	July 2013	The office has initiated the review of the

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	should review the arrangements for the transfer of funds to implementing partners to ensure that they are cost effective.			officer		fund transfer arrangements and the associated bank charges to its implementing partner and noted that the increased bank charges were due to the use of two separate bank accounts in respect of payments from UNHCR. UNHCR advised the IP that bank charges associated to only one bank account should normally be charged to UNHCR.
6	The UNHCR Representation in Iraq should finalize the host country agreement to clarify its Value Added Tax exemption status in central and southern Iraq.	Important	YES	Assist. Rep. Admin	Dec 2014	The draft host country Agreement has been undergoing an internal clearance process, with various governmental structures having commented on it. It is currently with the Shura Council but due to numerous competing priorities, the Council has yet to schedule it for debate. UNHCR Representation has offered to hold a meeting with the Shura Council to provide whatever clarifications that may be needed. However the meeting which had been planned for October, then November has been postponed for security reasons. UNHCR Representation in Iraq shall continue to follow up with the Shura Council and is proposing a new date for the meeting in the second half of January 2014.
7	The UNHCR Representation in Iraq should take action to strengthen its oversight of procurement and ensure that: (a) quality control procedures are strengthened by undertaking technical evaluation of samples; and (b) required competitive selection processes are	Important	YES	Supply officer	March 2014	The Representation office plans to strengthen its oversight of procurement quality control procedures by identifying a quality control firm in Iraq in the first quarter of 2014.  Although the procurement process has been enhanced, UNHCR Offices in Baghdad,

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	followed for all procurements cases.					including the main office in Green Zone and the one located in the vicinity of the Baghdad International Airport (BIAP), do not always have access to appropriate competitive bidding opportunities due to the lack of competent vendors.
8	The UNHCR Representation in Iraq should strengthen controls over warehousing by establishing a proper replenishment mechanism, reviewing the level of stocks held at its warehouses and minimizing the stock levels at the extended distribution points managed by its partners to minimize holding costs and to mitigate against risks arising from loss, theft and fire.	Important	YES	Supply officer	July 2013	<p>The Representation has taken measures to strengthen controls over warehousing by taking the following steps:</p> <ul style="list-style-type: none"> <li>- A new business Unit was created in MSRP (IRQD1) for Dohuk office, in Nov 2013.</li> <li>- The warehouse management implementing partner in Baghdad/ Erbil was replaced with a commercial service provider for efficient warehouse management in the two offices. The same in Baghdad as of Nov 2013.</li> <li>- The office ensured that stock reports were timely prepared:               <ol style="list-style-type: none"> <li>a) Monthly Stock report as at 31<sup>st</sup> Oct 2013.</li> <li>b) Inventory reconciliation report.</li> </ol> </li> </ul> <p>The office maintained the level of stock received to that of the contingency planning for each location. The one based in Baghdad is to meet reaction capacity: 1000 tents, 3000 NFI kits. In the north this is to cover at least needs for 100,000 individuals to be based in Erbil. This is to cater for reaction capacity for displacement or hazards such as floods.</p>