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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES • BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION • DIVISION DE L'AUDIT INTERNE

TO: Mr. António Guterres,
A: United Nations High Commissioner for Refugees

DATE: 25 August 2011

REFERENCE: IAD: 11- 00535

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment no. AR2011/121/01 – Audit of UNHCR Operations in Azerbaijan**

OBJET:

Overall results relating to assistance to refugees and persons of concern residing in Azerbaijan were partially satisfactory

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the recommendations, we request that you provide the additional information as discussed in the text of the report and summarized in Annex 1.
3. Please note that under General Assembly resolution 59/272, a Member State may request that the final audit report be made available. Also, note that pursuant to General Assembly resolution 64/263, OIOS will include the complete management response as an annex to the present report.
4. Please note that OIOS will report on the progress made to implement its recommendations, in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Alexander Aleinikoff, Deputy High Commissioner, UNHCR
Ms. Erika Feller, Assistant High Commissioner (Protection), UNHCR
Ms. Janet Lim, Assistant High Commissioner (Operations), UNHCR
Ms. Kumiko Matsuura-Mueller, Controller and Director, Division of Financial and Administrative Management, UNHCR
Mr. Daniel Endres, Director, Bureau for Europe, UNHCR
Mr Dag Sigurdson, Representative, UNHCR Azerbaijan
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Rohan Wijeratne, Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Moses Bamuwamye, Executive Secretary, IAAC
Mr. Zachary Ikiara, Chief, Oversight Support Unit, DM
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Mr. Christopher F. Bagot, Chief, Geneva Audit Service, OIOS
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

AUDIT REPORT

Audit of UNHCR Operations in Azerbaijan

BACKGROUND

The UNHCR Representation in Azerbaijan (Representation) was established in 1992 at the request of the host government and with the initial objective of assisting people internally displaced by the Nagorno-Karabakh conflict. Over the years, refugees started coming into Azerbaijan from the Russian Federation, Afghanistan and other neighboring countries. The population of concern consists of 2,346 asylum seekers mainly from Chechnya and Afghanistan and 586,013 internally displaced persons (IDPs). Currently, both the refugee and the IDP situations are protracted. For the past few years, the host government has increasingly provided support to IDPs by providing temporary settlements. UNHCR activities with regard to IDPs have therefore focused on advocacy, legal and technical assistance. The main objectives of the UNHCR operations are to:

- a) Maintain an effective and productive level of collaboration with national counterparts to ensure that the existing tolerant approach towards persons of concern to UNHCR is preserved and that the national asylum system is further developed;
- b) Ensure that human rights of refugees and asylum seekers are protected and their basic needs are met;
- c) Strive to achieve durable solutions where possible, including acquisition of citizenship, local integration, resettlement and voluntary repatriation;
- d) Enhance activities related to prevention of sexual and gender based violence; and,
- e) Work on gaining public understanding and sympathy on refugee matters through media campaigns and targeted activities and to expand civil society capacity to protect the rights of refugees and asylum seekers.

The host government does not admit Chechen asylum seekers (who constitute 58 per cent of the 2,346 asylum seeker caseload) to the national asylum procedures. The host government in general is not receptive to local integration. Refugees and asylum seekers in Azerbaijan almost entirely depend on external assistance. UNHCR and its Implementing Partners (IPs) seek to meet the most basic needs and provide financial assistance to vulnerable beneficiaries, which is possible with the support of donors such as the European Community Humanitarian Office (ECHO), Swiss Agency for Development & Cooperation (SDC) and the United States Department's Bureau of Population, Refugees and Migration (BPRM).

The budget of the Representation was \$4.2 million in 2009 and \$3.6 million in 2010, all of which was from voluntary contributions. The operation has 19 posts filled out of 21. Six IPs work with the Representation.

OBJECTIVE AND SCOPE

This audit was conducted to assess whether UNHCR Representation in Azerbaijan effectively implemented adequate risk management, control and governance processes to provide reasonable

assurance regarding the achievement of its role for assistance to refugees and persons of concern residing in Azerbaijan. The key controls tested for the audit included those related to: (a) risk management and strategic planning; (b) integrated programmatic and financial management reporting; (c) performance monitoring; (d) regulatory framework; and (e) Information Technology (IT) support systems. The audit covered the years 2009 and 2010.

AUDIT RESULTS

In OIOS' opinion, UNHCR Representation's risk management, control and governance processes examined were **partially satisfactory** to provide reasonable assurance regarding the achievement of its role for assistance to refugees and persons of concern residing in Azerbaijan.

A comprehensive plan was in place for the years 2010 and 2011 which identified the risks of the operation and the Representation's strategies to manage them, but a formal strategy for strengthening refugee self-reliance was needed. Integrated programmatic and financial management reporting was effective. The monitoring approach could be improved by adhering to the UNHCR guidelines on monitoring. There was a need to comply with the UNHCR Manual when renewing lease agreements for office premises, and recording and reporting donations in-kind. In addition, awarding of irregular individual service contracts needed to be discontinued. IT support systems were in place and working effectively.

A formal strategy and action plan for increasing refugee self-reliance

Refugee self-reliance is the basic criterion for a refugee programme as per the Framework for Durable Solutions for Refugees and Persons of Concern. In a protracted refugee situation, refugees need support for small-scale, home-based unobtrusive businesses. The Representation did not have a formal strategy and action plan in place to reduce the need for cash assistance.

(1) The UNHCR Representation in Azerbaijan should develop a strategy and action plan for increasing refugee self-reliance.

The UNHCR Representation in Azerbaijan accepted recommendation 1 stating that a road map for launching the livelihood project in Azerbaijan to test opportunities among refugees has been devised. An evaluation of the implemented pilot project has been completed. Considering results of the evaluation, a strategy will be developed in close liaison with headquarters. The strategy will be based on the findings of the Bureau of Europe/the Division of International Protection report as well as continued interventions for strengthening Government buy in. While the strategy will be ready by 31 December 2011, UNHCR Representation in Baku expects gradual implementation of the strategy throughout 2012. Recommendation 1 remains open pending receipt of the strategy and action plan for increasing refugee self-reliance.

Procedures for payment of cash assistance need to be revised

Most of the activities preceding the payment of assistance were under the control of UNHCR. The payments were based on beneficiary distribution lists drawn and approved by the Representation. However one IP made payments to beneficiaries and a different IP was responsible for the verification process, particularly family visits. Though no inappropriate payments or losses were identified, controls over cash payments could be improved by reviewing the current arrangements for cash disbursements.

(2) The UNHCR Representation in Azerbaijan should revise the standard operating procedures for cash assistance to require the implementing partner to rotate staff involved in cash disbursement, provide for sample checks to confirm that only approved beneficiaries receive cash assistance, clarify roles and responsibilities for cash payments to avoid duplication of efforts and ensure proper segregation of duties.

The UNHCR Representation in Azerbaijan accepted recommendation 2 and stated that the Representation will explore the possibility of cash disbursements to refugees and asylum seekers through ATM cards by the end of October 2011. Should this option fail, UNHCR will consider/examine the staff rotation option to ensure checks and balances. UNHCR will ensure that this recommendation is fully implemented by the end of 2011. Recommendation 2 remains open pending receipt of the revised SOPs on the payment of cash assistance taking into account the results of the exploration of the alternatives cited in the response.

Compliance with the UNHCR Manual when renewing lease agreements for office premises

The Representation's lease agreement for office premises in Baku for \$192,000 was renewed without prior approval of the Committee on Contracts (CoC) at the UNHCR headquarters, as required by Chapter 8 of the UNHCR Manual. The request for extension was sent to CoC on 20 January 2010, five days after the lease was signed on 15 January 2010. The Representation requested a waiver of competitive bidding. Reference was made to the fact that although the cost of living had increased, the owner of the premises had agreed to maintain the same rate of rentals for the following two years.

(3) UNHCR Bureau for Europe should review the renewal of office lease to establish whether UNHCR has incurred unnecessary expenditure as a result of non-compliance with the UNHCR procedures

The UNHCR Representation in Azerbaijan accepted recommendation 3 and stated stating that it will liaise closely with Donor Relations and Resource Mobilization, Supply Management and Legal Affairs Sections to ensure that any in-kind contribution is received in accordance with new IPSAS regulation. Based on the action taken by UNHCR recommendation 3 has been closed.

Recording and reporting donations in-kind

The UNHCR Representation in Azerbaijan received an in-kind contribution (consisting of quilts, blankets, health kits, school kits, sewing kits, layette and soap) from the Lutheran World Relief with an estimated value of \$983,209 in 2009 and \$1,000,852 in 2010. However, donations received were not treated in accordance with the new inventory policy (IOM/086-FOM/088/2008) that requires donations to be recorded in MSRP at their fair value as at the date of acquisition. In addition, Chapter 5 of the UNHCR Manual requires that in order for a contribution to be recognized by UNHCR, a formal offer and acceptance must be completed by an exchange of letter/fax/email between the donor and the Donor Relations and Resource Mobilization (DRRM) section DRRM before the shipment/delivery of the contribution. Fair value should be determined jointly by DRRM, in consultation with Supply Management Service (SMS) and other relevant offices. These steps were not followed by the Representation. In addition, agreement between the donor and UNHCR, in which UNHCR agreed to assume the costs related to clearance, storage, distribution and reporting, had not been cleared by the Legal Affairs Section at the UNHCR headquarters before signing the agreement.

(4) UNHCR Representation in Azerbaijan should obtain the acceptance letter from the Donor Relations and Resource Mobilization section of UNHCR before the shipment/delivery of the in-kind contribution; submit the agreement to be signed to the Legal Affairs Section at the UNHCR headquarters for review; and record the items received at the fair value of the donation.

The UNHCR Representation in Azerbaijan accepted recommendation 4 and stated that the non-compliance with the existing procedures was established, recognized and mitigated through the Committee on Contracts retroactive approval of the lease, which is reflected in the minutes of the Committee on Contracts meeting # 1408 of 19 February 2010. The Bureau has followed up with the Office in Baku to ensure full compliance to existing financial rules and procurement procedures regarding all contract extensions of this type. The Bureau for Europe reviewed the office lease and established that UNHCR has not incurred unnecessary expenditure because of non-compliance with the UNHCR procedures. Based on the action taken recommendation 4 has been closed.

Irregular contracts should be discontinued

Eleven staff were recruited under irregular service contracts at a total cost of \$35,000 per year. There was no documentary evidence substantiating the rationale for recruiting these staff.

(5) The UNHCR Representation in Azerbaijan should discontinue recruitment of staff using irregular service contracts.

The UNHCR Representation in Azerbaijan accepted recommendation 5 and stated that the UNHCR will immediately start reviewing alternative cost-effective contractual arrangements (contracting through United Nations Development Programme, outsourcing of services) to align the modality of contracts with the existing regulations for the irregular service staff. To allow this review and to avoid any interruption in the services, contracts for the current service staff will be extended to 30 September 2011. This transition will allow Branch office Baku to complete the review and have the new contractual arrangement effective as of 1 October 2011. Recommendation 5 remains open pending receipt of details of the implemented new contractual arrangements.

ACKNOWLEDGEMENT

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.