



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of UNHCR operations in Myanmar

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

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

27 November 2012

Assignment No. AR2012/141/01

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AUDIT REPORT

Audit of UNHCR operations in Myanmar

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) operations in Myanmar.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNHCR Representation in Myanmar was established in 1994 to facilitate the repatriation and reintegration of returnees from Bangladesh in the Northern Rakhine State (NRS). Its operations were extended to the southeast of Myanmar in 2004 to assist communities affected by the conflict in the region. The Representation's overall goal in NRS is to reduce statelessness and to stabilize the population through social and legal protection intervention. The objectives in the southeastern region are to restore essential services for the population displaced because of the conflict. The Representation's programme supports the priorities of the Government of Myanmar (GOM) and is governed by a Memorandum of Understanding (MOU) with the Ministry of Home Affairs for its operations in the NRS and a two year Letter of Understanding with the Ministry of Border Areas for its operations in southeastern Myanmar.
4. The expenditures of the Representation were \$11.29 million in 2010 and \$11.52 million in 2011. As of January 2012, the operation was headed by a Representative (D-1) supported by nine Professional (P), 56 General Service (GS) and National staff. The Representation has a Branch Office in Yangon, a Field Office at Maungdaw and four field units in the NRS and the southeastern region. At the time of the audit, the Representation had 53 property, plant and equipment (PPE) items recorded in the database costing \$1.3 million and 600 serially tracked items (STIs) costing \$0.64 million. The Representation worked with 12 implementing partners (IPs) in 2010 and seven in 2011.
5. Comments provided by UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness the Representation's governance, risk management and control processes in providing reasonable assurance regarding **the effective management of UNHCR operations in Myanmar**.
7. The audit was included in the 2012 OIOS risk-based work plan in consultation with the Bureau for Asia, taking into consideration the complexity of the operation, expenditure (\$23 million) and the time since the last audit 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** – those controls that provide reasonable assurance that there is accurate and complete monitoring and reporting of project activities, and, project activities have been carried out in compliance with UNHCR policies and procedures; and,

(b) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of the activity/programme in budget, finance, and procurement; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

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

10. OIOS conducted this audit from February to April 2012. The audit covered the period from 1 January 2010 to 31 December 2011.

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 assessed as **partially satisfactory** in providing reasonable assurance regarding **the effective management of UNHCR operations in Myanmar**. OIOS made three recommendations to address the issues identified in the audit. Project management was assessed as partially satisfactory as the UNHCR Representation in Myanmar needed to comply with the 2011 affiliate workforce guidelines by reviewing the practice of contracting a private service provider for protection and community services. The Representation had not provided evidence of the discontinuation of this practice although it had indicated that it had taken satisfactory steps to comply with the 2011 affiliate workforce guidelines. The Representation complied with relevant UNHCR manual provisions for calculating international IP overhead costs for the 2012 IP agreements, but had yet to recover overpayments pertaining to previous years. As regards regulatory framework, the Representation had implemented procedures to ensure that procurement authority was properly delegated to IPs and that training had been imparted to IPs regarding adherence to IP procurement guidelines.

13. 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 two 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 Myanmar	(a) Project management	Partially Satisfactory	Partially Satisfactory	Partially Satisfactory	Partially Satisfactory
	(b) Regulatory framework	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Project management

Use of commercial contract for delivering protection and community services

14. UNHCR’s 2011 guidelines on affiliate workforce envisage its use for enhancing organizational delivery and response in various functional profiles such as administration, programme, protection, and for specialized areas where UNHCR lacks capacity. While such additional workforce can be delivered through emergency and other deployments, United Nations Volunteers, United Nations Office for Project Services and IPs, they cannot be obtained through commercial contracts. In violation of these guidelines, the Representation used a private company for the provision of protection and community services. Moreover, the company’s employees, called community development facilitators (CDFs), were assigned incompatible functions (identification of beneficiaries and distribution of cash) and there were no arrangements in place for their supervision.

(1) The UNHCR Representation in Myanmar should review the practice of contracting with a private service provider for protection and community services with the view to ensuring compliance with the 2011 affiliate workforce guidelines and strengthening the management of protection and community activities. The review should cover provisions for appropriate segregation of tasks and adequate supervision by UNHCR.

The UNHCR Representation in Myanmar accepted recommendation 1 and stated that the service contract with the private company for the deployment of Community Facilitators and Programme Monitors had been terminated effective 31 August 2012. The plan was to shift these activities to an IP. Recommendation 1 remains open pending receipt of documentation showing the termination of the service contract with the private company and the allocation of these activities to IPs.

Management of IPs has improved

15. In response to an OIOS recommendation communicated to programme managers in the detailed audit results, the Representation established the IP Selection Committee on 26 March 2012. The Representation indicated that the IP selection checklist will henceforth be used and selection procedures will be reinforced to comply with guidelines. Action had been taken to address the weaknesses identified with respect to the quality of accounting systems maintained by two IPs. The Representation also established jointly with IPs an annual monitoring and reporting schedule/plan. Financial monitoring was now linked to actual project implementation and field officers played a major role for monitoring and corroborating IP reporting and actual project completion.

IP overhead costs are now correctly computed

16. Rules provide that where the total budget for local procurement to be undertaken by an IP exceeds 30 per cent of the total project value, the whole amount budgeted for local procurement should be taken out of the calculation of an IP's overhead costs. However, as the local procurement component had not been excluded, the seven per cent headquarters support costs for three international IPs had not been correctly determined in the IP budgets, resulting in the incorrect assessment of these costs and excess payments of approximately \$122,000 for 2009 to 2011. This occurred because the Representation was not aware of the rule.

(2) The UNHCR Representation in Myanmar should implement procedures to ensure that overhead support costs for international implementing partners are calculated in accordance with relevant rules and recover excess payments totalling \$122,000.

The UNHCR Representation in Myanmar accepted recommendation 2 and stated that 2012 IP sub-agreements had been revised to reflect correct calculations of international IP overhead support costs. With regard to the recovery for previous years, the Representation would make every effort to recover the amount. Meetings with the concerned IPs who received the excess payment took place during the Programme Officer's mission to NRS. Subsequent meetings and discussions also took place in Yangon. The responses of all concerned IPs were similar, in that the funds had already been spent on project-related activities during the respective implementation year and that they would not be in a position to reimburse. While the Representation would continue to follow up with the concerned IPs, prospects for collection at this stage were not positive. It is important to highlight that enforcing recovery would have a detrimental effect on the Representation's relationship with the relevant IPs and current project implementation, especially since they stated that the funds were spent in line with project objectives. The Representation also sought the advice of the Bureau for Asia and the Pacific on how to handle this matter. Recommendation 2 remains open pending receipt of the Bureau's advice on the recovery of excess payments and OIOS' review and consideration of such advice.

B. Regulatory framework

Financial management was satisfactory

17. Administrative budget obligation document (ABOD) budgets were \$1.02 million in 2010 and \$0.99 million in 2011. Controls over ABOD expenditures were in place, and expenditures generally within budgetary limits. Over-expenditures were properly justified. Expenditures for 2010 and 2011 pertaining to several categories including supplies and materials, asset purchases, improvement to premises, and operating expenses were valid and properly authorized and recorded.

18. In compliance with the Financial Internal Control Framework, the delegation of authority plan was in place and operating as designed. Bank and petty cash reconciliation was performed monthly. The Representation filed accurate and timely financial reports with UNHCR HQ.

Asset and inventory management was satisfactory

19. The Representation had 56 PPE items and 646 STIs recorded in the database with a purchase value of \$2.08 million. Controls over safeguarding of assets were in place and operating satisfactorily. The Representation initiated action to record non-food items and inventory in line with IPSAS standard

12. Since the volume of inventory in the NRS was high, action will be taken to create a warehouse stock accounting register in UNHCR's enterprise resource system to facilitate the accurate recording of inventories available at the physical warehouse in NRS.

IP procurement procedures have been strengthened

20. The Representation established the vendor registration committee effective on 1 May 2012 and indicated that it would send reminder letters to all existing suppliers that had not completed the vendor registration forms for their immediate compliance. The Representation accepted that there was an omission in not seeking Committee on Contracts (CoC) approval for fuel procurement and the contract for manpower services, and had taken action to prevent a recurrence. However, concerns persisted in relation to IPs' compliance with the IP procurement guidelines, which are compulsory for all the IPs in Myanmar, as they had not obtained pre-qualified status to undertake procurement. Five of the seven IPs made purchases in excess of \$100,000 without the requisite LCC approvals. Moreover, the IPs used purchase orders (POs) only when their value exceeded Euro2,500 (\$3,320), whereas UNHCR guidelines require POs for purchases exceeding \$2,000.

(3) The UNHCR Representation in Myanmar should implement procedures to ensure that sub-agreements for implementing partners (IPs) entrusted with procurement responsibilities comply with IP procurement guidelines and are approved by the Local Committee on Contracts.

The UNHCR Representation in Myanmar accepted recommendation 3 and stated that all new IP procurements are now approved by the appropriate committee on contracts. Training was conducted with all partners on UNHCR procurement guidelines. Based on the action taken by the Representation, recommendation 3 has been closed.

IV. ACKNOWLEDGEMENT

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



Ms. Fatoumata Ndiaye, Director
Internal Audit Division, OIOS

STATUS OF AUDIT RECOMMENDATIONS

Audit of UNHCR operations in Myanmar

Recom. no.	Recommendation	Critical/ ¹ Important ²	C/ ³ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Myanmar should review the practice of contracting with a private service provider for protection and community services with the view to ensuring compliance with the 2011 affiliate workforce guidelines and strengthening the management of protection and community activities. The review should cover provisions for appropriate segregation of tasks and adequate supervision by UNHCR.	Important	O	Submission to OIOS of documentation as evidence of termination of the service contract with the private company and the allocation of these activities to an implementing partner.	August 2012
2	The UNHCR Representation in Myanmar should implement procedures to ensure that overhead support costs for international implementing partners are calculated in accordance with relevant rules and recover excess payments totalling \$122,000.	Important	O	Submission to OIOS of a copy of the Bureau's advice on the recovery of excess payments and OIOS' review and consideration of such advice	May 2012
3	The UNHCR Representation in Myanmar should implement procedures to ensure that sub-agreements for implementing partners (IP) entrusted with procurement responsibilities comply with IP procurement guidelines and are approved by the Local Committee on Contracts.	Important	C	Action completed	Implemented

¹ 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.

² 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.

³ C = closed, O = open

⁴ Date provided by the Representation in response to recommendations.