



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of UNHCR financial management in Pakistan

Overall results relating to effective financial management were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

**10 December 2012
Assignment No. AR2012/141/02**

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1
III. AUDIT RESULTS	2-5
A. Regulatory framework	2-5
IV. ACKNOWLEDGEMENT	5
ANNEX I Status of audit recommendations	
APPENDIX 1 Management response	

AUDIT REPORT

Audit of UNHCR financial management in Pakistan

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations High Commissioner for Refugees (UNHCR) financial management in Pakistan.
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. Established and opened in 1979, Pakistan is one of the biggest UNHCR operations. The Representation had a budget of \$171.5 million in 2011 and \$176 million in 2010 and total expenditures of \$147.7 million and \$161.9 million in 2011 and 2010, respectively. In 2011, the Representation in Pakistan was responsible for approximately 3.7 million persons of concern living in refugee villages, camps and cities. Given the significant expenditures incurred in the operations, effective financial management of operations is a key element supporting the delivery of protection services and assistance to persons of concern. In 2011, the UNHCR actual workforce in Pakistan comprised of 365 regular posts: 55 Professional (D and P level), 41 National Officers, 204 General Service (GS) and Field Staff and 65 Temporary Assistance (TA). The Representation is composed of the branch office at Islamabad, sub-offices at Quetta and Peshawar, and eight field units.
4. Comments provided by UNHCR Pakistan are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of the Representation's governance, risk management and control processes in providing reasonable assurance regarding **effective financial management of UNHCR operations in Pakistan**.
6. This audit was included in the 2012 annual work plan in agreement with the Bureau for Asia and rated as higher risk due to significant expenditures and operational complexity.
7. The key control tested for the audit was the **regulatory framework**, which for the purpose of this audit OIOS defined as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations in budget, finance, and procurement; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
8. The key control was assessed for the control objectives shown in Table 1.
9. OIOS conducted this audit from February to April 2012. The audit covered the period from 1 January 2010 to 31 December 2011.
10. 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

11. The Representation’s governance, risk management and control processes examined were assessed as partially satisfactory in providing reasonable assurance regarding **effective financial management of UNHCR operations in Pakistan**. OIOS made six recommendations to address the issues identified in the audit. The Representation had acted on OIOS recommendations and: (a) ensured correct accounting treatment of 21 lease agreements; (b) completed action to prepare comprehensive guidelines on financial verification; (c) classified external audit recommendations by criticality and importance and ensured their follow-up; and (d) carried out a comprehensive verification of property, plant and equipment (PPE) country-wide and reconciled discrepancies. However, more efforts were necessary to ensure correct accounting treatment under the International Public Sector Accounting Standards (IPSAS) for software donated by an implementing partner and that staff completed IPSAS training. In addition, the Representation needed to prepare cash flow forecasting in MSRP.

12. 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 three important recommendations remains in progress.

Table 1: Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective financial management of UNHCR operations in Pakistan	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Action was initiated on cash management and forecasting

13. Petty cash management was generally adequate. A few weaknesses were noted and brought to the attention of management for corrective action, including: (a) ineligible disbursements of daily subsistence allowances paid from petty cash, (b) disbursements not supported by vouchers and other documents, and (c) insufficient safeguarding of petty cash funds in two field offices. Furthermore, supervisory review of bank reconciliations, handling of cheques, custody and access to unused chequebooks and segregation of duties needed improvement. The Representation promptly addressed these issues to strengthen internal controls over cash management and ensure compliance with UNHCR rules.

14. In addition, there were excessive cash holdings in bank accounts due to inadequate cash flow forecasting. In some instances dollar and rupees bank accounts showed balances above the monthly average balance. For example, highest balance was \$2.77 million vis-à-vis the average of \$708,000 and

Rs 882 million (\$10.23 million) vis-à-vis the average of Rs 101.28 million (\$1.19 million). The cash flow forecasting module of the Managing for Systems, Resources and People (MSRP) enterprise resource planning software was not used and cash forecasting was done manually. In addition, cash forecasts only considered projected cash disbursements and excluded projected cash receipts. The initial requirement of \$9.28 million from the Programme Unit was subsequently reduced to \$2.32 million, which indicates that cash forecasting was not performed appropriately.

(1) The UNHCR Representation in Pakistan should streamline cash forecasting procedures to consider the projected cash receipts and disbursements, thoroughly review cash requirements from each sub-office, supply chain and programme units, and use the cash flow forecasting module in the Managing Systems, Resources and People.

The UNHCR Representation in Pakistan accepted recommendation 1 and stated that it was meticulously reviewing the cash requirements from different units and offices in the Representation. It had also identified 57 staff needing training on MSRP cash flow forecasting module and requested UNHCR Headquarters for the conduct of training. Immediately after the training, the recommendation would be implemented. Recommendation 1 remains open pending the conduct of training and the preparation of cash flow forecasting in MSRP.

Action was initiated on IPSAS implementation

15. The Representation prepared and submitted the templates prescribed by UNHCR Headquarters on the IPSAS-related instructions in respect of the physical balances of property, plant and equipment, inventories, submission of lease agreements, and surveys on capital improvements and restoration costs on land and buildings. For the 21 lease agreements, there was no analysis to determine if they qualified as operating or financial leases in accordance with the UNHCR accounting policy. In addition, the Representation did not determine the appropriate accounting treatment for the cost of internally generated software valued at \$815,418 for an ongoing project. It was not clear whether the software should be capitalized as intangible asset or written off as research and development costs. In addition, all required staff did not complete the mandatory IPSAS training.

(2) The UNHCR Representation in Pakistan in consultation with the Division of Financial and Administrative Management should determine the appropriate accounting treatment for the lease agreements and the internally generated software in accordance with the International Public Sector Accounting Standards.

(3) The UNHCR Representation in Pakistan should prepare an action plan to ensure that all staff complete the mandatory International Public Sector Accounting Standards courses required of their current functions.

The UNHCR Representation in Pakistan accepted recommendation 2 and stated that as advised by UNHCR Headquarters, all the leases were considered operating leases. The Representation confirmed them as operating leases as the risks and rewards associated with the leased properties had not be transferred to the lessee, and the lessors take full control and ownership of the leased properties. In respect of the software, the Representation stated that UNHCR Headquarters identified the internally generated software, having been procured by the IP, as an IP-owned asset and ownership was transferred only when the IP donated it to UNHCR. The IP had since issued the certificate of donation which was being sent to UNHCR Headquarters for the issuance of the purchase order (PO) for the donation. Recommendation 2 remains open pending the appropriate treatment of the software in the financial statements in accordance with IPSAS.

The UNHCR Representation in Pakistan accepted recommendation 3 and stated that it had reminded all staff on the completion of the mandatory IPSAS on-line training by 30 September 2012. However, as at audit report date, the monitoring of completion was still ongoing. Recommendation 3 remains open pending receipt of the list of staff who have completed the IPSAS mandatory training.

Action was taken to prepare comprehensive guidelines on financial verification

16. The Representation periodically conducted financial verifications of IPs. However, supervisory review over the financial verifications was limited. Furthermore, there were no comprehensive guidelines on financial verification setting out the criteria for the scope and selection of expenditures for verification, and the structure and content of verification reports. Financial verifications were not conducted consistently for all IPs. Reports varied from office to office. Some staff performing financial verifications did not have a finance background.

(4) The UNHCR Representation in Pakistan should develop comprehensive financial verification guidelines.

The UNHCR Representation in Pakistan accepted recommendation 4 and stated that it had conducted Project Control coordination meeting in July 2012 harmonizing the reporting tools and application of the verification guidelines in the verification exercises. As a result, the Representation designed and disseminated to field and sub-offices for further review the various templates covering important information such as procurement, asset and financial management, and programme monitoring. Each office had submitted the verification plan, which had been consolidated at the Representation. Based on the action taken by the Representation, recommendation 4 has been closed.

Action was taken to strengthen monitoring of audit recommendations

17. The Representation prepared a matrix on the status of implementation of all outstanding external audit recommendations. However, implementation rate was low and audit recommendations were not classified by criticality for effective monitoring.

(5) The UNHCR Representation in Pakistan should classify external audit recommendations by importance and criticality and follow up on their timely implementation.

The UNHCR Representation in Pakistan accepted recommendation 5 and stated that reports issued by the external auditors for 2011 projects highlighted the criticality of the recommendations and the Project Control followed up and continuously monitors actions taken by IPs in the verification exercises. All recommendations by external auditors on 2010 projects were acted upon by the IPs concerned. The Representation had initiated the following action plans: (i) hiring of additional staff to reinforce Programme/Project Control units; (ii) designing of a comprehensive verification templates for use by each office; (iii) submission by each office of the quarterly verification plan; (iv) minimum of two IPFMR verifications per IP and maximum of four or five verifications depending on previous audit opinion and level of risks and verification observations, and (v) possibility of verifying every IPFMR prior to the release of next installment. Based on the action taken by UNHCR Pakistan, recommendation 5 has been closed.

Action was completed on strengthening controls for management of PPE

18. Inventory arrangements for PPE were not adequate. Physical verification was not fully documented to provide a description of the exercise, problems faced and resolved, and lessons learned. There were serviceable inventory items with zero values according to MSRP, which is not in compliance with IPSAS. Furthermore, there was no evidence of regular monitoring of PPE lent to IPs under the agreement for temporary use of UNHCR assets.

(6) The UNHCR Representation in Pakistan should strengthen the management of property, plant and equipment.

The UNHCR Representation in Pakistan accepted recommendation 6 and stated that it had embarked on an intensive physical verification of all PPE countrywide, i.e., twice a year instead of once a year according to Chapter 8 of the UNHCR Manual. The first verification was completed in June-July 2012 and the second phase was planned in September and October 2012. The results of the first verification were consolidated and analyzed. Reported discrepancies and weaknesses were acted upon and lessons learned were noted. Based on the action taken by UNHCR Pakistan, recommendation 6 has been closed.

IV. ACKNOWLEDGEMENT

19. OIOS wishes to express its appreciation to the Management and staff of UNHCR Pakistan 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 Financial Management in Pakistan

Recom. no.	Recommendation	Critical/ ¹ Important ²	C/ ³ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Pakistan should streamline cash forecasting procedures to consider the projected cash receipts and disbursements, thoroughly review cash requirements from each sub-office, supply chain and programme units, and use the cash flow forecasting module in the Managing Systems, Resources and People.	Important	O	Preparation of cash flow forecasting in MSRP.	31 December 2012
2	The UNHCR Representation in Pakistan in consultation with the Division of Financial and Administrative Management should determine the appropriate accounting treatment for the lease agreements and the internally generated software in accordance with the International Public Sector Accounting Standards.	Important	O	Appropriate treatment in the financial statements according to the criteria in IPSAS for intangible assets (donated software) defined under IOM no. 089/11.	31 December 2012
3	The UNHCR Representation in Pakistan should prepare an action plan to ensure that all staff complete the mandatory International Public Sector Accounting Standards courses required of their current functions.	Important	O	Receipt of the list of staff that completed IPSAS mandatory training.	31 December 2012
4	The UNHCR Representation in Pakistan should develop comprehensive financial verification guidelines.	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.

Recom. no.	Recommendation	Critical/¹ Important²	C/³ O³	Actions needed to close recommendation	Implementation date⁴
5	The UNHCR Representation in Pakistan should classify external audit recommendations by importance and criticality and follow up on their timely implementation.	Important	C	Action completed	Implemented
6	The UNHCR Representation in Pakistan should strengthen the management of property, plant and equipment.	Important	C	Action completed	Implemented