



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of UNHCR Private Sector Fund-Raising

Overall results relating to Private Sector Fund-Raising activities to support UNHCR programmes were initially assessed as partially satisfactory. Implementation of seven important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

18 December 2012

Assignment No. AR2011/165/01

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AUDIT REPORT

Audit of UNHCR Private Sector Fund-Raising

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) Private Sector Fund-Raising (PSFR) activities.
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. PSFR activities are managed by the PSFR service, which is part of the Division of External Relations (DER). PSFR's mission is to raise funds from the private sector, including corporate companies, foundations, and individual donors directly, and through its investment into National Associations who raise funds for UNHCR. In its 2011 strategy, PSFR identified four different types of income sources to support its growth, respectively individual donors, corporate donors, foundations and High-Net-Worth Individuals (HNWI) that contribute to the increase of available resources for UNHCR.
4. Five national associations (NAs), located in Japan, Spain, Australia, Germany and United States of America, undertake fund-raising work on behalf of UNHCR. The partnerships between UNHCR and these NAs are governed by frame agreements, which are based on the UNHCR standard implementing partner frame agreements. The agreements set out the details of how the NAs should conduct their business, including details on such things as the need to maintain cash books and inventories and when PSFR should be consulted on procurement.
5. PSFR service is headed by a Head of Service (D-1) supported by a Deputy Head of Service (P-5) and 58 approved posts including Professional, National and General Service staff, 27 of them remaining vacant at the time of the audit. Between 2009 and 2011, annual income from the private sector grew by 117 per cent, from \$51 million to \$111 million. The budget for 2010, 2011 and 2012 was \$35 million, \$47 million and \$60 million respectively. OIOS last audited PSFR activities in 2001. The results of the audit were reported to the General Assembly (A/56/759).
6. Comments provided by UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of the UNHCR governance, risk management and control processes in providing reasonable assurance regarding **effective management of private sector fund-raising activities**.
8. The audit was included in the 2011 OIOS risk-based work plan in consultation with the UNHCR Division of External Relations (DER), taking into consideration the key and complex PSFR activities, the growth of PSFR activities over the last three years in size and nature, the risks in dealing with external partners raising funds on the behalf of UNHCR and the changes to PSFR operational processes and approach.

9. The key controls tested for the audit were: (a) fund-raising capability; (b) regulatory framework; and (c) coordination mechanisms. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Fund-raising capability** - controls that relate to PSFR's capability to raise funds to meet the targets and expectations of UNHCR with a return on investment that agrees with UNHCR strategies, plans and policies on private sector fund-raising.

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

(c) **Coordination mechanisms** - controls that provide reasonable assurance that potential overlaps in the performance of PSFR, such as some similar functions performed by the Donor Relation Resource Mobilization Service (DRRMS), are mitigated, and that issues affecting or involving other UNHCR offices related to PSFR are identified, discussed and resolved timely and at the appropriate forum.

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

11. OIOS conducted the audit from 6 September 2011 to 5 May 2012. The audit covered the period from January 2010 to May 2012.

12. 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

13. The UNHCR governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of private sector fund-raising activities**. OIOS made seven recommendations to address the issues identified in the audit.

14. The mission set in the PSFR strategic document of annually raising \$100 million by 2012 was achieved by the end of 2011. However, the following control weaknesses presented a reputation risk to the fund-raising ability of the organization.: inadequate control over the use of the UNHCR logo by third parties; the lack of background checks on foundations and High-Net-Worth Individuals with whom the NAs work; the absence of procedures for ensuring that the NAs and their employees adhere to an acceptable Code of Conduct; and weaknesses in the controls over confidentiality of data regarding donors and fund-raising. Also, the model which provides for NAs to use a portion of funds raised to fund their operating costs does not ensure that the UNHCR receives as much from fund-raising activities as it might if this was managed differently.

15. UNHCR has introduced strong financial monitoring of PSFR activities at Headquarters. Various controls have been put in place such as the Income Growth Fund mechanisms, the contribution records in the Management System Resource and People (MSRP), monthly monitoring and reporting on NAs and PSFR regional activities and reconciliation of key financial records. PSFR financial reports are carefully

prepared in that respect. However, the regulatory framework was assessed as partially satisfactory because the mechanisms in place do not provide sufficient assurance of NAs complying fully with signed agreements. Further, the segregation of duties within PSFR is not adequate to provide good internal control over the approval and recording of expenditure.

16. With regard to coordination, PSFR has taken steps to enhance coordination between PSFR and UNHCR Representatives, including establishing Cooperation Frameworks between DER and some UNHCR Representatives. DER also plans to undertake a strategic review of PSFR and Donor Relation Resource Mobilization, the area within UNHCR responsible for public sector fund-raising, which will include examining possible synergies in their operations.

17. 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 private sector fund-raising activities | (a) Fund-raising capability | Partially satisfactory | Partially satisfactory | Partially satisfactory | Partially satisfactory |
| | (b) Regulatory framework | Partially satisfactory | Partially satisfactory | Partially satisfactory | Partially satisfactory |
| | (c) Coordination mechanisms | Satisfactory | Satisfactory | Satisfactory | Satisfactory |
| FINAL OVERALL RATING: PARTIALLY SATISFACTORY | | | | | |

A. Fund-raising capability

Need to strengthen existing guidance on usage of UNHCR logo and modified logo

18. UNHCR rules allow that an organisation that donates \$50,000 or more can make use of the UNHCR logo provided such use is approved in advance by UNHCR. The ability of third parties to issue documents carrying the UNHCR logo presents a significant reputational risk and should be closely monitored and controlled. UNHCR has not introduced a mechanism for monitoring whether an organisation is complying with the requirement to seek approval before use of the logo, or whether such usage is in accordance with what has been approved. There is also no guidance on when, or if, a modified version of the logo may be used or what action should be taken if the logo is used inappropriately.

(1) UNHCR should develop specific guidelines and policy on the use of the UNHCR logo, including approval processes and monitoring requirements. These guidelines should specifically encompass monitoring of the right of usage of UNHCR logo by third parties vis-à-vis the Private Sector Fund-Raising agreements.

UNHCR accepted recommendation 1 and stated that PSFR had developed draft guidelines on the use and monitoring of UNHCR visibility logo, which are part of the revised framework agreement that would be signed in 2013. Recommendation 1 remains open pending receipt of the final guidelines on the use and monitoring of UNHCR visibility logo.

Need to review the model for funding the operating costs of NAs from funds collected

19. The frame agreements with NAs allow the NAs to retain 25 per cent of the total gross funds they collect, to meet operating costs. The UNHCR Income Growth Fund policy states that if the funds retained are more than is needed to meet operating costs, the surplus should be reinvested in generating additional funds for UNHCR. However, the frame agreements do not require NAs to do this. There is no guidance to NAs on what is expected of them when the 25 per cent they retain exceeds what is needed to cover operating costs. Also, the concept of basing the funding model on a fixed percentage of amounts collected is counter-intuitive. In difficult economic times NAs collections may go down significantly and the reduction in funding costs may not be sustainable, causing a further reduction in collections. In a good economic environment, 25 per cent may be far more than is needed to fund operating costs. UNHCR should reconsider the model used to fund the operating costs of NAs with a view to maximizing long-term collections.

(2) UNHCR should revise the model for funding the operating costs of the national associations (NAs) to provide clearer guidance on the use of retained funds and encompass mechanisms for ensuring that funds are only retained by the NAs to the extent necessary to maximize the funds transferred to UNHCR programmes.

UNHCR accepted recommendation 2 and stated that the new policy for the Income Growth Fund mechanisms was ready for approval by the Head of PSFR as result of internal and external consultations. The transfer mechanism had been addressed through the new framework agreement and the annual funding agreement, in order to reflect the model that requires maximum transfer of income to be agreed from the NAs on a case-by-case basis. ECA already agreed to transfer 87 per cent in 2012. Recommendation 2 remains open pending approval by the Head of PSFR of the new policy for Income Growth Fund mechanisms and the inclusion of the related transfer mechanism in the revised framework agreements signed by national associations.

Need to review the Corporate Partnership Governance Board terms of reference to include monitoring responsibility over foundations and HNWIs

20. The Corporate Partnership Governance Board ensures that UNHCR only enters into a formal partnership with a corporation after an in-depth background check has been carried out. This control mechanism reduces the risk of damage to the reputation of UNHCR through involvement with partners whose activities may be incompatible with the objectives of the UNHCR. A similar check is not conducted when PSFR enters in partnership with foundations and HNWIs.

(3) UNHCR should introduce a mechanism to undertake in-depth background checks of foundations and High-Net-Worth Individuals.

UNHCR accepted recommendation 3 and stated that it was developing a gift-acceptance policy and expanding the focus of the due diligence processes, including the role of the Corporate Partnership Governing Board (CPGB), to include foundations and High-Net-Worth Individuals. This process had been approved by the Division of External Relations Director and the Deputy High Commissioner (Chairman of the CPGB) and was being implemented. Research, interviews and

interagency outreach was in progress. A detailed report on the implementation of the aforementioned plan with recommendations would be shared with the CPGB in December 2012. It was anticipated that the CPGB would approve the recommendations in January 2013. Recommendation 2 remains open pending receipt of examples of background checks undertaken.

Third parties working with PSFR on fund collection should be asked to demonstrate adoption of an acceptable Code of Conduct

21. The UNHCR Code of Conduct states “Governmental and non-governmental organizations and companies which, through their employees, work for UNHCR, will be requested to make the principles contained in the Code known to those persons in an appropriate manner”. This should apply to the various partners, such as NAs used by PSFR, because any failure to comply while working on behalf of UNHCR will be seen as a failure by UNHCR. PSFR management in Italy does request partners to adhere formally to the Code of Conduct. This practice is not however in place in every country where PSFR has a presence through either NAs or private fund-raising companies.

(4) The UNHCR Private Sector Fund-Raising Service should ensure that its partners formally adopt an acceptable Code of Conduct and make all employees and contractors aware of the principles inherent in the Code.

UNHCR accepted recommendation 4 and stated that principles of Code of Conduct were included as an annex to the framework agreements that were under finalization. NAs had been invited to undertake annual awareness workshop in cooperation with the relevant UNHCR representations. PSFR Regional Managers had been asked to facilitate this process. Recommendation 4 remains open pending receipt of documentation showing the adoption of a code of conduct and efforts to ensure that all employees and contractors are aware of the code of conduct.

Arrangements for ensuring the confidentiality of private donor database should be put in place

22. UNHCR consider PSFR data to be highly sensitive and the frame agreements specify that all data compiled or received by an NA under the agreement should to be treated with confidentiality. Any failure of security in respect to this data, particularly data in relation to donors, poses a reputational risk to the UNHCR and hence a danger to future fund-raising capability. Although NAs are required to maintain the confidentiality of data, PSFR has taken no action to ensure that security over the data is adequate. In Italy, where UNHCR has direct responsibility, the database is hosted by a private company with whom PSFR has an agreement of confidentiality, so some legal recourse is possible should a leak happen. This is not the case in Japan, where a private firm is handling the data on behalf of the NA.

(5) UNHCR should develop procedures for reviewing and monitoring confidentiality of data maintained by national associations on behalf of the Private Sector Fund-Raising Service, including private donor databases.

UNHCR accepted recommendation 5 and stated that PSFR was establishing a programme of regular operational reviews, which would include data management and confidentiality as part of NA management criteria. Technical clarification was being sought to ensure integrity of databases. Recommendation 5 remains open pending receipt of documentation showing the review and monitoring of confidentiality of data maintained by NAs on behalf of PSFR.

B. Regulatory framework

Oversight arrangements specified in agreements with NAs need to be strengthened to improve accountability

23. The frame agreements contain a clause which gives UNHCR the right to conduct audits of NA activities and to have access to the records of the NA to confirm that the agreements have been complied with. This clause has never been used and no audits have ever been conducted. After NAs sign the agreements, they are not required to provide any assurance that they are complying with them. PSFR had not introduced controls for providing assurance that NAs were complying with the terms of these agreements. Measures should be introduced to remedy this situation. The senior management of NAs could, for example, be required to provide a statement that they have introduced measures to ensure that the agreements are complied with. PSFR could also invoke the audit clause in the frame agreements to initiate audits of NAs to attest that the activities of NAs are being correctly and fully reported.

(6) The UNHCR Private Sector Fund-Raising Service should introduce controls to provide assurance that national associations are complying with the terms of the frame agreements.

UNHCR accepted recommendation 6 and stated that NA framework agreements were under review and would be in effect for 2013. A Senior Programme Officer position requested by PSFR, whose role would be to support NA compliance and governance issues, had been created. A staff member had already been temporarily assigned to fill this position. Control measures would be implemented to ensure compliance with the framework agreements. Recommendation 6 remains open pending confirmation of controls implemented to ensure NAs' compliance with frame agreements.

Need to strengthen internal control over collecting, recording and reporting of funds

24. Segregation of duties between personnel within an accounting system is a fundamental internal control. Within PSFR, the same people have the responsibility for raising, reporting, and recording funds in the UNHCR accounting system.

(7) UNHCR should introduce more effective segregation of incompatible functions, or implement compensating controls, to ensure accurate accounting for, and reporting of funds.

UNHCR accepted recommendation 7 and stated that Division of External Relations would consult with the Division of Financial Administration Management on the appropriateness of the current system for income recording. Recommendation 7 remains open pending confirmation of controls implemented to ensure that incompatible functions are segregated.

C. Coordination mechanisms

Synergies and internal coordination mechanisms between DRRMS and PSFR are being explored to enhance overall fund-raising effectiveness

25. PSFR is not the only unit within UNHCR fund-raising responsibilities. In particular Donor Relations and Resource Mobilization Service is responsible for public sector fund-raising. PSFR and DRRM share the common objective of raising funds for UNHCR activities and perform many similar activities. Although they share some common tools (contribution details recording), their standard

operational processes are different and their approach to fund-raising differs. Discussions with DRRM and PSFR staff showed that room existed for improving coordination between the two services. At the time of the this report, UNHCR had initiated a strategic review of PSFR and DRRM with a planned completion date of end December 2012. No further action was therefore recommended.

IV. ACKNOWLEDGEMENT

26. 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.



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STATUS OF AUDIT RECOMMENDATIONS

Audi of UNHCR Private Sector Fund-Raising

| Recom. no. | Recommendation | Critical ¹ / Important ² | C/ O ³ | Actions needed to close recommendation | Implementation date ⁴ |
|------------|--|---|----------------------|--|----------------------------------|
| 1 | UNHCR should develop specific guidelines and policy on the use of the UNHCR logo, including approval processes and monitoring requirements. These guidelines should specifically encompass monitoring of the right of usage of UNHCR logo by third parties vis-à-vis the Private Sector Fund-Raising agreements. | Important | O | Submission to OIOS of the final guidelines on the use and monitoring of UNHCR visibility logo | 30 June 2013 |
| 2 | UNHCR should revise the model for funding the operating costs of the national associations (NAs) to provide clearer guidance on the use of retained funds and encompass mechanisms for ensuring that funds are only retained by the NAs to the extent necessary to maximize the funds transferred to UNHCR programmes. | Important | O | Submission to OIOS of documentation showing the approval by the Head of PSFR of the new policy for Income Growth Fund mechanisms and the inclusion of the related transfer mechanism in the revised framework agreements signed by national associations | 28 Feb 2013 |
| 3 | UNHCR should introduce a mechanism to undertake in-depth background checks of foundations and High-Net-Worth Individuals. | Important | O | Submission to OIOS of examples of background checks undertaken | 31 Jan 2013 |
| 4 | The UNHCR Private Sector Fund-Raising Service should ensure that its partners formally adopt an acceptable Code of Conduct and make all employees and contractors aware of the principles inherent in the Code. | Important | O | Submission to OIOS of documentation showing the adoption of a code of conduct and efforts to ensure that all employees and contractors are aware of the code of conduct | 30 Sept 2013 |
| 5 | UNHCR should develop procedures for reviewing and monitoring confidentiality of data maintained | Important | O | Submission to OIOS of documentation showing the review and monitoring of confidentiality of | 30 June 2013 |

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 UNHCR in response to recommendations

| Recom. no. | Recommendation | Critical/ Important ² | C/ O ³ | Actions needed to close recommendation | Implementation date ⁴ |
|------------|---|-------------------------------------|----------------------|---|----------------------------------|
| | by national associations on behalf of the Private Sector Fund-Raising Service, including private donor databases. | | | data maintained by NAs on behalf of PSFR | |
| 6 | The UNHCR Private Sector Fund-Raising Service should introduce controls to provide assurance that national associations are complying with the terms of the frame agreements. | Important | O | Confirmation of controls implemented to ensure NAs' compliance with frame agreements | 28 Feb 2013 |
| 7 | UNHCR should introduce more effective segregation of incompatible functions, or implement compensating controls, to ensure accurate accounting for, and reporting of funds. | Important | O | Confirmation of controls implemented to ensure that incompatible functions are segregated | 30 September 2013 |