

UNITED NATIONS

**Office of Internal Oversight Services
UNHCR Audit Service**

Assignment AR2004/141/01
Audit Report R05/R003

15 April 2005

AUDIT OF UNHCR OPERATIONS IN BANGLADESH

Auditor:

Nikolai Grigoriev

UNITED NATIONS



NATIONS UNIES

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EXECUTIVE SUMMARY

In December 2004, OIOS conducted an audit of UNHCR Operations in Bangladesh. The audit covered activities with a total expenditure of US\$ 3.1 million in 2002, 2003 and 2004. A summary of preliminary findings and recommendations was shared with the Representative in December 2004, on which comments were received in January 2005. *The Representative has accepted the recommendations made and is in the process of implementing them.* A draft of this report was shared with the Representative and with the Director of the Bureau; no further comments were received.

Overall Assessment

- OIOS assessed the UNHCR Operation in Bangladesh as average, it was adequately run but although the majority of key controls were being applied, the application of certain important controls lacked consistency or effectiveness. In order not to compromise the overall system of internal control, timely corrective action by management is required.

Programme Management

- For the two partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. However, MFDM did not comply with normal procurement standards, resulting in inflated prices. OIOS estimates that some US\$ 30,000 per year could be saved through proper competition.
- In 2003, project financial monitoring lacked consistency and a more structured approach with regards to financial verification was required. In 2004, the Representation made considerable improvements in this area.
- The more than 200 government staff working for the UNHCR project were receiving various allowances and other benefits, the exact nature and modalities of which had not been documented, involving a risk of unjustified payments.
- The number of government staff working for the project was excessive and called for further retrenchment.
- The recommendation of the Board of Auditors on the improvement of significant country indicators for monitoring was not fully implemented.

- As in the 1996 audit, OIOS found again instances, where the government partner MFDM had used UNHCR funds provided for fuel and for the repair and maintenance of project vehicles, for purposes unrelated to the project.

Supply Management

- Major procurement was undertaken by an implementing partner without a mechanism for obtaining refund of Value Added Tax. Direct procurement by the UNHCR Representation should be considered in order to save taxes of about US\$ 20,000 per year.
- Further efforts were required to adjust the incorrect entries in the AssetTrak and ensure that data is updated at regular intervals. The Representation has yet to finalize the disposal of 226 non-expendable property and specialized items dating as far back as 1992.
- UNHCR Bangladesh was incurring unnecessary annual expenditures of US\$ 13,000 for renting a warehouse and an open space to keep 20 damaged vehicles near Cox's Bazar.

Security and Safety

- OIOS assessed the security and safety measures in place in Bangladesh as satisfactory. However, no blast protection film was fixed on the windows of the UNHCR Representation in Dhaka and no blast mitigation barriers were installed near the outside perimeter of the compound. At the Sub-Office in Cox's Bazar, CODAN equipment was installed on only 50 per cent of the office vehicles, which posed a risk in view of the recent security related incidents in the camps.

Administration

- In the areas of administration and finance, the UNHCR Offices in Bangladesh generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, improvement and strengthening of internal controls were required in the areas of personnel management and handling of medical evacuation cases.

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I. INTRODUCTION

1. From 28 November to 12 December 2004, OIOS conducted an audit of UNHCR's Operations in Bangladesh. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Representation in Dhaka, its Sub-Office in Cox's Bazar and of two of its implementing partners.
2. The last OIOS audit and IGO review were conducted in 1996 and 2002 respectively. An external audit was conducted in 2002. Internal control weaknesses were noted over implementing partners monitoring, budget planning, human resources, training, asset management and financial and general accounting.
3. UNHCR Bangladesh has two refugee programmes: one for some 20,000 refugees from Northern Rakhine State (NRS) in Myanmar, and another for over 140 urban refugees from various countries. The population is mainly a residual caseload of 250,000 refugees who fled from Myanmar to Bangladesh in 1990-1992. The objectives of the programme are provision of protection and assistance to refugees while seeking durable solutions. Care and maintenance and facilitation of voluntary repatriation are the main components of the programme for refugees from NRS.
4. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the Exit Conference held on 12 December 2004. A note outlining the preliminary audit findings and recommendations was sent to the Representative in December 2004. The comments, which were received in January 2005, are reflected in the final report. *The Representation has accepted the audit recommendations made and is in the process of implementing them.* Prior to finalizing this report, a draft was shared with the Representative and the Director of the Bureau in February 2005; no further comments were received.

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations;
 - Safeguarding of assets; and
 - Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on projects 02,03/AB/BGD/RP/370 (a) and (b) and covered activities implemented by the Ministry of Food and Disaster Management/Refugee Relief and Repatriation Commissioner (MFDM/RRRC) of the Government of Bangladesh (GOB) - expenditure of US\$ 1.2 million and Concern, Bangladesh – expenditure US\$ 0.8 million. We

also reviewed activities directly implemented by UNHCR with expenditure of US\$ 0.4 million. The audit reviewed the administration of the Representation Office (RO) in Dhaka and of Sub-Office (SO) in Cox's Bazar with administrative budgets totalling US\$ 0.7 million for the years 2002, 2003 and 2004 (up to August) and assets (as recorded on Headquarters AssetTrak) with an acquisition value of US\$ 2.6 million and a current value of US\$ 249,000. In 2004, there were 4 Professional and 6 General Service staff members working in the RO in Dhaka and 6 Professional, 13 General Service staff members and 4 UNVs working in the SO in Cox's Bazar.

7. The audit activities included a review and assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Implementing Partners

8. For the two partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. OIOS assessed that internal controls of the partners were generally in place. However, OIOS identified areas where serious improvements were required.

9. Audit certificates for 2002 and 2003 sub-projects were available for both partners. They stated that SPMRs gave a true and fair view of the situation.

(a) Ministry of Food and Disaster Management/Refugee Relief and Repatriation Commissioner (MFDM/RRRC)

Accounting and internal controls

10. MFDM/RRRC operated a manual accounting system and maintained a general ledger, which in 2002 did not correspond to the UNHCR budget lines. Internal controls, especially in 2002, needed improvement in such areas as checking transaction accuracy, as well as approval of transactions. In 2004, UNHCR Bangladesh made a considerable effort to review in detail the accuracy and completeness of the 2003 expenditures. An attempt to perform a reconciliation of the expenditures in the camps, which constitute an integral part of the final SPMR, failed as the 2002 ledger in Nayapara camp was not properly kept. Due to missing data, the verification of supporting documents could not be performed. OIOS recommended that MFDM/RRRC provide an explanation on the cause of the missing information in the ledger. *UNHCR Bangladesh replied that the Programme Officer and Programme Assistant would pursue this further in the field and would share information on the actions taken.*

Procurement

11. MFDM/RRRC did not comply with the UNHCR implementing partner procurement guidelines. MFDM/RRRC disclosed the amount budgeted for the purchase to the contractors and then chose the contractor on an arbitrary basis. This involved the risk of inflated prices and of favouritism. In fact, MFDM/RRRC was procuring goods and services at prices which

were much higher than the market prices. A conservative estimates suggests that with competitive bidding, prices could be reduced by at least one third, resulting in yearly savings of about US\$ 30,000. *UNHCR Bangladesh raised the issue of non-compliance to the Sub-Agreement during the meeting with the Secretary, and Finance Officer in January 2005. They agreed to change the present procurement practices.*

Recommendation:

- The UNHCR Representation in Bangladesh should ensure that MFD/RRRC procure goods and services for the project on the basis of competitive bidding and in compliance with the UNHCR Implementing Partners Procurement Guidelines, in order to achieve annual savings of about US\$ 30,000 (Rec. 01).

Pending the change of MFD/RRRC procurement practices, OIOS keeps this recommendation open in its database.

(b) CONCERN

Accounting system and internal controls

12. CONCERN operated a manual accounting system with the detailed general ledger maintained on EXCEL spreadsheet. For 2002 and 2003 verification problems persisted since CONCERN used its own and not the UNHCR budget codes to record expenditures. It is only in 2004 that it switched to the UNHCR budget structure. The present system appeared generally satisfactory to report on UNHCR funds.

Procurement procedures

13. CONCERN did not follow important procurement procedures: there was no approved list of purchasing committee members; for major purchases there was no formal bidding and the quotations were solicited by telephone. For the procurement of the Compressed Rice Husk amounting to more than US\$ 100,000, CONCERN split the purchase between four suppliers. Since CONCERN is no longer a UNHCR partner in 2005, no recommendation is raised.

B. Other Programme Issues

Project financial monitoring

14. OIOS could not evidence whether the Representation carried out at least one in-depth review and verification exercise in 2003 to review the SPMRs for 2002. The auditor was informed that in 2003 the Programme Assistant travelled to the camps to verify the documents and outputs of the programme. However, no report of these visits was available. There was also no evidence that financial monitoring was linked to performance monitoring. OIOS recommended that the UNHCR Representation in Bangladesh take a more structured approach to the in-depth review and verification exercise of SPMR. *UNHCR Bangladesh replied that changes had been introduced since the arrival of the new Representative and that structured verifications had started in July 2004.*

Project staff salaries and allowances

15. The sub-project implemented by the Government was employing a total of 184 persons to work in the offices and in the camps. On top of it, 33 Government officials, who were receiving the salary from the Government, were also receiving from the project a “Living Support Allowance” in addition to a “Daily Allowance”. The project was also paying retrenchment and termination benefits. Neither the Representation nor the Sub-Office in Cox’s Bazar had official documents explaining the exact nature and modalities of these payments. The SO also stated that some staff were receiving the Housing Rent Allowance from UNHCR, while they were entitled to receive the same allowance from the Government. OIOS recommended that the UNHCR Representation in Bangladesh should request the MFDM/RRRC to provide official Government documents explaining the exact nature and modalities of allowances. These documents should be analysed so that any duplicate or questionable payments by the project are avoided. *The UNHCR Representation stated that the National Legal Officer who has access to legal documents was looking into these two aspects. Any double payment of the same allowance - be it from the government or from UNHCR - would be removed.*

Recommendation:

- The UNHCR Representation in Bangladesh should review the various salaries and allowances paid to Government staff working for the project and determine their nature and modalities to avoid those similar allowances are paid to the same staff from different sources (Rec. 02).

Pending the outcome of the review, OIOS keeps this recommendation open in its database.

16. A total of 217 GOB staff were receiving salaries and allowances from the project. This number appeared to be excessive and some positions appeared to be redundant or otherwise unnecessary. For instance, the project is funding eight posts of accountants/accounting assistants in MFDM/RRRC. The documents provided to OIOS indicated that several staff cuts had already been made from 1998 to 2000. The issue was raised again only in October 2004. OIOS recommended that the UNHCR Representation in Bangladesh review the staffing needs and identify unnecessary and duplicative positions of GOB staff working for the project. It should also compare the staffing situation in GOB with the one existing in other countries where projects employ an important number of government staff. *The Representation replied that the reduction of staff was being pursued actively. A review of the staff needs had been made. Based on this, RO had requested MFDM to reduce 46 staff, the monthly allowance of 16 staff and daily allowances of 15 staff.*

Country indicators

17. OIOS followed-up on the recommendation of the external auditors made in 2002 to improve significant country indicators for monitoring by UNHCR. We found that, for example, the ratio of MFDM/RRRC administrative expenditures versus total expenditures grew from 49 per cent in 2002 to 60 per cent in 2003 and 67 per cent in 2004. OIOS recommended that the UNHCR Representation in Bangladesh monitor the significant country indicators with a view to keep the administrative expenditures of the implementing partner under control. *The Representation replied that the increase in the administrative expenditure in 2003 was due to the handing over of health sector activities from CONCERN and MSF to*

the GOB. The Representation had informed the Government verbally and in writing that about 20 per cent of the administrative budget would be cut in 2005.

Use of vehicles provided by the project

18. The review of fuel expenditures in MFDM Dhaka showed that fuel, which had to be provided for the project cars, was used for other Government vehicles. OIOS had already made the same observation during the last audit in 1996. Also, the Ministry was incurring expenditures for equipment, which was above UNHCR standards. OIOS recommended that the UNHCR Representation monitor more closely these expenditures. The Representation should ensure that expenditures for refuelling vehicles, which do not belong to the project, are not charged to the project. *The Representation stated that it was tightening control on the use of vehicles and that it had sent a verification report to MFDM on this issue.*

C. Supply Management

Tax exemption of implementing partners

19. Although UNHCR's Implementing Partner CONCERN was procuring goods for the project RP/370 (b) for more than US\$ 200,000 per year, it had not established a system to obtain refund of VAT from the GOB. Taking into account the present rate of VAT, the average VAT payments per year are estimated at US\$ 20,000. OIOS recommended that the UNHCR Representation in Bangladesh address the Ministry of Finance of the GOB in order to officially establish the rights of the registered NGOs concerning tax exemption. In case the tax exemption is not granted, the Representation should consider the possibility to take over the purchasing function from an NGO. *In its reply UNHCR stated that in order to avoid the losses on VAT, all items with VAT would be procured by UNHCR, claiming UN tax exemption rights. NGOs do not have exemption rights.* OIOS maintains that the possibility of obtaining tax exemption for NGO implementing partners should be further explored, before opting for self-implementation.

Recommendation:

- The UNHCR Representation in Bangladesh should assess, together with Host Country Authorities, the granting of tax exemption for UNHCR project purchases made by NGOs implementing partners. If no such status can be granted, major procurement should be undertaken directly by UNHCR in order to save tax payments of some US\$ 20,000 per year (Rec. 03).

Pending the outcome of this assessment, OIOS keeps this recommendation open in its database

Asset Management

20. Our review of AssetTrak revealed that data were neither accurate nor up-to-date. The December 2004 report showed the equipment, including light duty vehicles, with such custodians as MSF Holland, MSF France and Oxfam, although UNHCR Bangladesh stopped

the working arrangements with these implementing partners in 2003 or even earlier. Further efforts were therefore required to adjust the incorrect entries and ensure that AssetTrak data is updated at regular intervals. *UNHCR Bangladesh indicated that it had been trying to get the AssetTrak focal person at Headquarters to assist in the training of the AssetTrak focal person at RO.*

21. In November 2003, the SO in Cox's Bazar prepared 15 files of GS 45s for the disposal of 226 NEP and specialized items dating as far back as 1992. One year later, in November 2004, LAMB has not yet reviewed these cases. OIOS recommended that the Representation expedite the action needed and the review of GS 45s in order to dispose of the unused property. *The Representation stated that action had been taken to dispose of the property in question, as confirmed by the minutes of LAMB dated 11 January 2005.*

Warehousing

22. UNHCR has rented a warehouse near Cox's Bazar (one hour drive to one camp and two hours drive to another) at an annual rent of US\$ 13,000. The need for this warehouse, where 20 damaged UNHCR vehicles are being stored, is not clear. A small warehouse could be located in the camps or near the camps. OIOS recommended that the UNHCR Representation in Bangladesh together with the Sub-Office review the possibility of transferring the warehouse closer to the camps. *The Representation stated that the LAMB had decided to dispose all the old, unusable items in the warehouse. The Representation expected to be able to close the warehouse by the end of June 2005. A small warehouse would be created each in Nayapara and Kutupalong camps.* The Representation also did not insure the quantities of stock in the warehouse. *UNHCR Bangladesh replied that, as soon as the old, unusable items were sold, the remaining items would be insured through Headquarters.*

Recommendation:

- The UNHCR Representation in Bangladesh should discontinue the rent of the warehouse near Cox's Bazar and create small warehousing facilities in each of the two camps, thus generating annual savings of US\$ 13,000 (Rec. 04).

Pending the information on the closure of the warehouse, OIOS keeps this recommendation open in its database.

D. Security and Safety

23. The UNHCR Representation in Bangladesh generally complied with the UN Security and Safety procedures. However, OIOS noted that no blast protection film was installed on the windows of the UNHCR Representation in Dhaka, no concrete cubes to block the possible parking of cars were put near the outside perimeter of the compound. To enhance fire safety, extra fire extinguishers should be procured and smoke detectors should be installed. At the Sub-Office in Cox's Bazar, CODAN equipment was installed on only 50 per cent of the office vehicles. This posed a clear security risk in view of the recent security related incidents in Kutupalong and Nayapara camps. *UNHCR Bangladesh stated that the necessary equipment*

and installations were being procured and the works should be completed by April 2005.

E. Administration

24. As far as administration and finance were concerned, the UNHCR offices in Bangladesh generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, OIOS identified some areas where improvements were required. In the area of personnel management, OIOS recommended to review and revise the current staffing structure, which includes two Programme Officers and two Programme Assistants, but no international Administrative/Finance Officer in order to eliminate redundancies on the programme function and strengthen the administrative and finance function. *The Representation replied that the issue would be raised at the Operations Review Board session in February 2005.*

25. On the issue of Medical Evacuation (MEDEVAC), OIOS recommended that the system of referrals and approvals be reviewed for clarity and speed and tested in order to have assurance of its efficiency and effectiveness. Also, relevant documentation should be systematically completed and correct rates applied. *The Representation agreed with these recommendations.*

V. ACKNOWLEDGEMENT

26. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of UNHCR and its implementing partners in Bangladesh.

Egbert C. Kaltenbach, Chief
UNHCR Audit Service
Office of Internal Oversight Services