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AUDIT OF UNHCR OPERATIONS IN AUSTRIA

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Office of Internal Oversight Services
UNHCR Audit Service

AUDIT OF UNHCR OPERATIONS IN AUSTRIA (AR2005/121/03)

EXECUTIVE SUMMARY

In February 2005, OIOS conducted an audit of UNHCR Operations in Austria. The audit covered activities with a total expenditure of US\$ 0.7 million in 2003 and 2004. A summary of preliminary findings and recommendations was shared with the Representative in February 2005, on which comments were received in March 2005. A draft audit report was shared with the Representative and the Director of the Bureau for Europe and was copied to the Financial Resources Service in May 2005, on which comments were received in June 2005 and reflected in the final report. *The Representative and the Financial Resources Service have accepted all of the recommendations contained in the final report and are in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Austria as above average. Overall, it was well run, and although some weaknesses in the application of internal controls were identified, the weaknesses concerned were not sufficiently critical to compromise the overall system of internal control.

Programme Management

- For the implementing partner CARITAS, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. However, CARITAS could further enhance reporting on progress against indicators.
- UNHCR funds totalling US\$ 1.1 million from repaid housing loans were still with the Austrian Integration Fund (AIF). Extra efforts are needed to transfer the amount to a UNHCR account so that it could eventually be used to finance refugee related projects outside Austria.
- According to the information submitted by AIF, the outstanding loans in 2003 amounted to some US\$ 0.8 million. Note 11 to the UNHCR Financial Statements in 2003 and earlier, mentioned an amount of US\$ 4,105,000 under the heading “Loans made to refugees” having been transferred to the Austrian Ministry of Interior. This amount is misleading as it reflects the loan balances on UNHCR accounts as of 1988 when they were transferred to the Austrian government. Hence, as recommended by the Board of Auditors in their 2003 and 2004 Management Letters, there was a need to correct the Notes to the Financial Statements.
- The level of Austrian contributions to UNHCR was low in comparison to other EU countries and called for more persistent actions by UNHCR. A comprehensive fundraising strategy for

Austria and a joint action plan for the implementation of the 30 per cent base level model still need to be developed.

- The Representation did not perform financial monitoring visits to the implementing partner. The recommendation of the Board of Auditors on the late signing of Sub-Project Agreements was yet to be implemented. Delays in submission of Sub-Project Monitoring Reports reached up to 3 ½ months.

Supply Management

- The Representation did not keep a list of all procurement actions undertaken by the office. Since 1997, the Representation has been hiring the same IT expert; yet there was no contract for the provision of the information technology services.

Security and Safety

- The Representation generally complied with UN security and safety requirements. However, the location of the Representation in a separate building too close to the perimeter fence of the Vienna International Centre is not in accordance with the Minimum Operational Security Standards (MOSS). Negotiations on the relocation to the main complex need to be speeded-up.

Administration

- In the areas of administration and finance, the Representation in Austria generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. Further strengthening of internal controls was required in the area of financial signing authority.

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I. INTRODUCTION

1. From 30 January to 7 February 2005, OIOS conducted an audit of UNHCR's Operations in Austria. 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 Vienna and of its implementing partner CARITAS.
2. The last internal and external audits were conducted in 1996 and 1999 respectively. Internal control weaknesses were noted over programme management, implementing partners monitoring and supply management.
3. The total number of refugees in Austria was over 18,000 at the end of 2004. At the same time, the cases of more than 38,000 individuals were pending decision in the asylum procedure in one of the three instances. They are expected to benefit from the lasting impact of precedent-setting court decisions, authoritative reiteration of UNHCR positions and principles, capacity building of service providers and strengthening of joint Government-NGO management structures. In addition, UNHCR Austria assists, on an annual basis, approximately 1,000 – 1,500 asylum seekers from various countries, who are being denied adequate standards of protection in Austria. UNHCR Austria also performs a liaison function with OSCE.
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 7 February 2005. A summary of preliminary audit findings and recommendations was shared with the Representative in February 2005, on which comments were received in March 2005. A draft audit report was sent to the Representative and to the Director of the Bureau for Europe and copied to the Financial Resources Service in May 2005, whose comments were received in June 2005 and reflected in the final report. *The Representation and the Financial Resources Service have accepted all of the audit recommendations made in the final report and are in the process of implementing them.*

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 03 & 04/AB/AUS/LS/400 and covered activities implemented by CARITAS – expenditure US\$ 192,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 105,000. The audit reviewed the

administration of the Representation in Vienna with administrative expenditures totalling US\$ 440,000 for the years 2003 and 2004 and assets (as recorded on Headquarters AssetTrak) with an acquisition value of US\$ 180,000 and a current value of US\$ 23,000. As of July 2004, there were 4 Professional and 6 General Service staff members working in UNHCR Vienna. The Protection Assistant (Airport) post was 50 per cent co-financed by the Austrian Government.

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 the Implementing Partner CARITAS

8. For the Implementing Partner reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. OIOS assessed that internal controls of CARITAS were generally in place. However, OIOS identified areas where some improvements were required.

9. OIOS reviewed the reporting of progress against indicators in the main project documents and noted that it was not clear whether the figures of asylum seekers included members of refugees' families. OIOS recommended that the consistency of the terminology in the planning and reporting documents should be observed. *Both CARITAS and the Representation agreed with the recommendation. It had been acted upon in the process of the finalization of the sub-agreement for 2005 to ensure clarity and consistency in terms of categories included in the number of direct beneficiaries.* Although CARITAS was not involved in major procurement activities, OIOS brought its attention to the case when for a purchase with a value exceeding US\$ 5,000, no formal tendering exercise had been undertaken. OIOS recommended that CARITAS adhere to the Sub-Project Agreements and procure goods in compliance with the UNHCR Implementing Partners Procurement Guidelines. *The Representation replied that CARITAS had agreed to adhere to the rules in the future.*

B. Other Programme Issues

Austrian Integration Fund

10. In the 1950s and 1960s UNHCR funded loans to co-finance the construction of homes for refugees in Austria. These loans were administered by the Austrian Integration Fund (AIF) managed by the Ministry of Interior (MOI) of Austria. At present, AIF is legally no longer part of the Ministry of the Interior although a senior MOI official chairs the inter-ministerial managing board in which UNHCR is also a member. The Fund cannot use any of the repaid funds without prior UNHCR consent. As of 31 December 2003, the amount accumulated at this savings account was Euro 897,000 (US\$ 1.1 million). A proposal on the possible transfer

and use of the funds for refugee related projects outside Austria was submitted by the Representation to the Bureau for Europe in July 2004. At the time of the audit, no action has been taken on this proposal.

11. OIOS recommended that the UNHCR Representation in Austria should make further efforts to allow using the accumulated amount for UNHCR activities outside Austria and reach an agreement on the modalities of transfer of the accumulated amount to a UNHCR account, outside of the Fund, for the eventual use by UNHCR. *The UNHCR Representation stated that it was arranging for the remittance of the accumulated funds and subsequent annual repayments to HQ. Subsequent to the audit, the Representative informed the Bureau for Europe of his intention to instruct the AIF in writing to transfer the amount of Euro 860,000 to the global UNHCR EUR account. The UNHCR Treasury had been informed about this accordingly.*

12. During the follow-up of the issue with the Bureau for Europe in April 2005, OIOS learned that the amount had not yet been transferred and certain questions were raised by Treasury concerning the status of the agreement with the Government. Therefore, further consultations within UNHCR are needed. Since the funds coming from outside of the UNHCR accounting system would be treated as income, a decision should be taken by the Financial Resources Service on how to record this transfer.

Recommendation:

- The UNHCR Bureau for Europe together with the Financial Resources Service and the Division of External Relations should determine the conditions and modalities for the transfer of the fund balance of the Austrian Integration Fund totalling some US\$ 1.1 million and use of funds for the projects outside Austria and communicate this position to the Executive Manager of the Austrian Integration Fund. The UNHCR Treasury should decide on how to record this transfer (Rec. 01).

In its reply to the draft report, the Representation stated that implementation of recommendation 1 was ongoing and proceeding in cooperation between UNHCR Bureau for Europe and UNHCR Treasury. A letter to the Executive Manager of the AIF regarding the remittance of the accumulated UNHCR funds would be drafted in June 2005. Pending the outcome of this matter, OIOS keeps this recommendation open in its database.

Amounts of outstanding loans on UNHCR Financial Statements

13. Information from the AIF in Austria showed that the loan balances as per the end of 2003 amounted to some US\$ 0.8 million. However, Note 11 to the 2003 UNHCR Financial Statements mentioned an amount of some US\$ 4.1 million as loans “Transferred to the Refugee Committee established with the Austrian Ministry of the Interior.” Clearly, this reference was misleading as the related amount reflected the situation as of 1988 when a transaction was made for a credit entry to zero-out the then loan balance in Austria (US\$ 4,105,721) from the UNHCR accounts.

14. OIOS referred to the 2003 and 2004 Board of Auditors Management Letters, which

confirmed this situation and their recommendation that the Note should only list the outstanding loans still repayable to UNHCR (“delete terminated loans from the accounts”). OIOS recommended that the Financial Resources Service clean the accounts accordingly and revise the relevant Note to the Financial Statements to list only loans still collectable by UNHCR. At present, these are only the loans from Germany with an unpaid balance amounting to some US\$ 780,000 in 2003. *The Financial Resources Service agreed with the recommendation and confirmed that the note to the accounts on the status of the refugee loans as at 31.12.2004 had been revised accordingly.*

Fundraising activities

15. Over the past years, UNHCR has witnessed a chronic lack of funds due to the fact that it depends almost entirely on voluntary contributions. Austria, while being the fourth richest country in the EU (in terms of GDP per capita) is not making a comparable contribution to UNHCR. During the period of 1999 to 2003, it occupied 14th place among EU countries (ranking between Greece and Portugal). Its contribution in 2002 reached the lowest level in four preceding years and amounted to US\$ 240,000. In 2003 it went up and reached US\$ 720,000. On the other hand, UNHCR expenditures in Austria (including staff costs) were US\$ 1.6 for the same year.

16. On 22 December 2003, the General Assembly recommended in its Resolutions A/58/503 and A/58/410 the implementation of the 30 per cent base level model. Based on a hypothetical annual budget of US\$ 1 billion, 30 per cent of that budget was considered to be the minimum requirement for UNHCR to maintain a skeleton structure. Calculations for particular countries are based on the UN Regular Scale of Assessment. If the idea materialized, the annual contribution for Austria would amount to some US\$ 2.8 million. The Representation in Austria informed its counterparts in the Foreign Ministry of Austria about these developments.

17. At the same time, we noted that in order to achieve the successful implementation of the model, a joint action plan had to be developed between the Representation and DRRMS. During the time of the audit, such a plan had not yet been completed. The former and present Representatives in Austria also planned to develop a comprehensive fundraising strategy for Austria. We learned that such a strategy has not yet been developed.

18. *The Representation commented that plans to work out a more comprehensive strategy and actual plan in cooperation with DRRMS and BE were delayed though in 2004, since the Austrian government counterparts went through a process of organizational restructuring not leading to the required consolidation before the end of the year. The meeting between the Europe Bureau and DRRMS of 14 January 2005 laid the internal basis at HQ for the preparations and the necessary information flow, which a common and comprehensive fundraising strategy requires for its implementation and to produce results.* OIOS welcomes this preparatory process but is of the opinion that the goals set in order to develop the strategy and the action plan should be met.

Recommendation:

- The UNHCR Representation in Austria, together with the Bureau for Europe and the Division of External Relations, should complete the development of a fundraising strategy and a joint action plan for the implementation of the 30

per cent base level model for Austria (Rec. 02).

In its reply to the draft audit report, the Representation stated that the Chief of DRRMS had visited Austria in April 2005 and had held meetings with the Ministry of Foreign Affairs, the Austrian Development Agency and Austrian NGOs. A draft funding strategy is already under discussion between the Division of External Relations, the Bureau for Europe and the Representation in Austria and is expected to be finalized in June 2005. Pending its finalization, OIOS keeps this recommendation open in its database.

Project management

19. UNHCR Austria did not perform project financial monitoring visits to CARITAS, which should have taken place twice a year, including one in-depth review. Sub-Project Agreements with CARITAS continued to be signed after the Effective Commencement Date, although a recommendation to that effect had already been made by the Board of Auditors in 1999. Also, The Sub-Project Monitoring Reports were submitted by CARITAS with considerable delays. *The Representation agreed to improve project management and planned to carry out a financial monitoring visit to Caritas in July 2005. It also engaged to fully comply with previous and current audit recommendations on timely signing of project documents and closely monitor the compliance of CARITAS with reporting deadlines.*

C. Supply Management

Procurement of goods and services

20. In the procurement area, tendering procedures were not always followed by the Representation. *UNHCR Austria agreed to take corrective actions to further strengthen control over the procurement function.* Since 1997, the Representation has been hiring the same IT expert for the provision of information technology services. In 2002-2004, US\$ 31,000 was expended for these services. However, no contract was ever signed with this expert, although the Board of Auditors had raised the issue in 1999. *The Representation committed to formalize the engagement of IT services in accordance with UNHCR procurement guidelines.*

D. Security and Safety

21. The UNHCR Representation in Austria generally complied with the UN Security and Safety procedures. However, the location of the Representation at the perimeter fence of the Vienna International Centre right next to a roundabout with three public access roads at the one end of the office building constitutes a residual danger. The distance between the reinforced perimeter and the building is less than one meter. In 2003, UNOV proposed the relocation of UNHCR back to the main building. UNHCR expressed its interest and communicated the space requirements to UNOV. OIOS suggested that the UNHCR Representation in Austria speed-up the negotiations with UNOV on the possibility of the relocation. *UNHCR Austria indicated that the Representation was in regular contact with UNOV in preparation of the recommended implementation of the office move to the main compound.*

E. Administration

22. As far as administration and finance were concerned, the UNHCR Representation in Austria generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, OIOS noted that improvements were required in the area of financial signing authority. *The Representation indicated that the situation had already been rectified completely since the Representative no longer signed any travel authorizations for himself, but rather the next most senior staff, based on the prior written authorization from Headquarters. As to the travel within operational area in Austria, the Bureau of Europe would issue the relevant authorization to the Representative effective 1 June 2005.*

V. ACKNOWLEDGEMENT

23. 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 Austria.

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