

UNITED NATIONS

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

Assignment AR2005/131/01
Audit Report R05/R016

11 August 2005

**AUDIT OF UNHCR OPERATIONS IN IRAQ FUNDED BY THE
UNITED NATIONS DEVELOPMENT GROUP – IRAQ TRUST FUND**

Auditor:

C. Lakshmi Varahan

UNITED NATIONS



NATIONS UNIES

Office of Internal Oversight Services
UNHCR Audit Service

**AUDIT OF UNHCR OPERATIONS IN IRAQ FUNDED BY THE
UNITED NATIONS DEVELOPMENT GROUP – IRAQ TRUST FUND
(AR2005/131/01)**

EXECUTIVE SUMMARY

In April 2005, OIOS conducted an audit of UNHCR Operations in Iraq. This report covers the activities in Southern Iraq funded under the United Nations Development Group – Iraq Trust Fund (UNDG-ITF).

For the operations in Southern Iraq, which were managed and controlled by UNHCR Cross Border Base Kuwait (CBBK), UNHCR received US\$ 7.1 million from the Iraq Trust Fund in 2004. The related UNHCR expenditure was US\$ 5.2 million, of which, US\$ 4.2 million (or 80 per cent) was through twelve implementing partners. UNHCR did not establish a separate ledger for these funds, but blended the fund with other donor sources and posted them to the project 04/SB/IRQ/RP/332. Against all the funding sources, UNHCR reported an expenditure of US\$ 6.7 million in 2004 for this project.

OIOS audit covered four implementing partners based in Kuwait whose total expenditure was US\$ 4.3 million. A summary of preliminary findings and recommendations was shared with the Chief of Mission in April 2005, on which comments were received by May 2005. *The Chief of Mission has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- The entire Iraq operations are remotely managed and controlled from Kuwait and Amman. The embargo on UN international staff travel to Iraq, movement restrictions of UNHCR national staff inside Iraq and the departure of NGO expatriate staff in the first quarter of 2004 for security reasons made programme implementation and monitoring difficult and expensive. The national staff of UNHCR's implementing partners shouldered considerable responsibilities and executed the bulk of the activities.
- With unreliable banking facilities in Iraq, OIOS estimated that about 70 per cent of the total project expenditure in 2004 was disbursed by cash. The national staff members of the implementing partners handled most of this cash and were exposed to considerable physical and operational risks.
- The remote management did have and will continue to have a serious impact on the UNHCR's ability to discharge its core protection function. Taking these high risks into account and the reasonable monitoring mechanisms put in place by UNHCR to mitigate them, OIOS assessed the UNHCR Operation in Iraq as average.

Programme Management

- From a financial perspective, for the four partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements.
- Project financial and performance monitoring was adequately performed despite the difficult situation. Monthly progress reports were received from the implementing partners and analysed. Financial verification of project activities was also carried out regularly. However for better results, financial data should be matched with the actual level of implementation.
- CBBK has established a website (www.cbbk.org) and has uploaded the pictures of the project activities implemented in Southern Iraq. This is a commendable initiative, which should be expanded to cover the entire Iraq operations. Further, efforts are underway to carry out a technical evaluation of 2004 construction components by engaging outside expertise. The management should continue to pursue such innovative mechanisms to further improve the application of key controls.
- With a requirement for the implementing partners to maintain infrastructure in multiple places, the administrative cost of implementing the programme has considerably increased.
- Due to the operational limitations and remote management, procurement practices of some of the implementing partners were not always transparent. Some of the implementing partners expressed reservations in instituting procurement procedures inside Iraq.

August 2005

TABLE OF CONTENTS

CHAPTER	Paragraphs
I. INTRODUCTION	1-4
II. AUDIT OBJECTIVES	5
III. AUDIT SCOPE AND METHODOLOGY	6-10
IV. AUDIT FINDINGS	
a) Risk Exposure	11-17
b) Separate Ledger	18
c) Programme Monitoring	19-21
d) Audit Certification	22
V. ACKNOWLEDGEMENT	23

I. INTRODUCTION

1. From 5 to 21 April 2005, OIOS conducted an audit of UNHCR's Operations in Iraq. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. This report covers the activities of the UNHCR Cross Border Base Kuwait (CBBK) or the UNHCR Sub-office, Basra and four of its implementing partners, which were funded under the UNDG-ITF.
2. There were over 200,000 internally displaced persons (IDPs) that UNHCR was concerned with. These numbers were expected to increase with the continuing armed conflict and simmering ethnic tension. UNHCR's role focussed on coordination, protection, policy development and provision of return and reintegration assistance to the most vulnerable groups in the areas of return. UNHCR also chaired the inter-agency IDP Working Group, a Cluster 8 sub-group which closely followed developments on the ground and made policy recommendations to the Cluster. In addition, UNHCR was also concerned with about 65,000 non-Iraqi refugees comprising mainly of Palestinians, Iranians and Turkish Kurds.
3. UNHCR assisted with the provision of low cost 'self-help' housing units in non-contentious rural areas as well as rehabilitation works in districts and villages with a high percentage of returnees/IDPs. Quick impact projects were implemented to restore basic social and economic services and infrastructure like water, sanitation, education and health. Also, UNHCR contributed to the vocational skill training to ensure that returnees benefited from employment opportunities and income-generating activities.
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 20 April 2005.

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. UNHCR received US\$ 7.1 million from United Nations Development Group - Iraq Trust Fund (UNDG-ITF) for the operations in Southern Iraq and had expended about US\$ 5.2 million in 2004, of which US\$ 4.2 million (80 per cent) was through twelve implementing partners mostly international NGOs.
7. OIOS noted that the total expenditure recorded against the project 04/SB/IRQ/RP/332 for the operations in Southern Iraq in 2004 was US\$ 6.7 million. Our review concentrated on

the activities implemented by InterSOS – expenditure US\$ 1.5 million, The Salvation Army – expenditure US\$ 1.5 million, Agency for Technical Cooperation and Development (ACTED) – expenditure US\$ 0.5 million and War Child – expenditure US\$ 0.84 million. We were unable to carry out an audit of Danish Refugee Council – expenditure US\$ 0.25 million as all accounting documentation had already been sent to their Copenhagen Headquarters from Kuwait.

8. After the August 2003 bombings that killed scores of UN personnel and decision to pullout the international staff from Iraq, UNHCR established two offices ‘in exile’ in Amman and Kuwait by October 2003 to remotely manage the Iraq programme. UNHCR had to considerably rely on the NGO implementing partners for the programme implementation. Furthermore, with a prohibition on the travel of UN international staff to Iraq in place, UNHCR resorted to other methodologies to monitor the programme implementation, as the use of its traditional monitoring mechanism was not possible.

9. Also the NGOs operating in Iraq had serious constraints due to the deteriorating security situation which eventually led them to switch over to the remote management mode. In Southern Iraq, the international staff members of the NGOs working with UNHCR pulled out in the beginning of 2004 and most of them are based in Kuwait. Furthermore, most of the NGOs have offices in Kuwait. The Iraqi national staff members of these NGOs run the operations in Southern Iraq.

10. OIOS’ review of the implementing partners was confined to the examination of accounting and other records made available in Kuwait. The audit activities included a limited review and assessment of internal control systems, interviews with staff available in Kuwait and analysis of applicable data.

IV. AUDIT FINDINGS

a) Risk Exposure

11. Due to the security situation inside Iraq and the absence of a reliable banking system, UNHCR’s implementing partners used money traders to transfer the funds needed for the operations. OIOS estimated that over 70 per cent of the funds for the operational projects were spent inside Iraq in cash. Furthermore, the national staff members of the implementing partners were responsible for the receipt, safekeeping and disbursement of most of these funds.

12. OIOS noted that NGO staff kept considerable hard cash at their residences. For example, OIOS found that US\$ 40,000 in cash was held at an NGO’s staff member’s house. Considering the security situation, the economic challenges confronting Iraq, the disproportionate level of salaries to national staff compared to their responsibilities, as well as the remote management of the operations by the implementing partners, OIOS concluded that UNHCR is exposed to a high level of operational and financial risks, not to mention the physical risk to national staff members. *The Office of the Chief of Mission explained that this was an isolated case due to the lack of a banking system inside Iraq. Implementing partners have no option but to rely on national staff for handling cash. The continued use of money traders for the operations is still the most reliable mode of fund transfers.*

13. In general, the procurement procedures followed by UNHCR’s implementing partners were not fully transparent. InterSOS was responsible for the reception of returnees from Iran

and Saudi Arabia at a transit centre and their onward transportation to their final destinations in Iraq. InterSOS expended over US\$ 75,000 in transportation, but documentation such as manifests and contracts were not available. The audit found that it was not possible to relate payment vouchers to the incoming convoys and subsequent departure to the final destination from the transit centre. OIOS recommended that InterSOS maintain comprehensive details like final destinations paid for, the number of returnees in each bus, the distances covered and the cost per km. *The Office of the Chief of Mission explained that UNHCR national staff were closely involved in the reception of returnees and most of the documentation relating to the operations was available in Basra. The decision to engage vehicles off the market instead of a service contract was based upon needs and in their opinion was the most cost effective.*

14. Similarly, ACTED, which expended US\$ 185,000 on shelter construction activities, did not have all the documentation in Kuwait like Bills of Quantities, bidding documentation, receiving and other warehouse reports for the materials procured and consumed. Their files in Kuwait contained only the payment vouchers.

15. Some of the implementing partners explained that most of the missing documents were available in their offices in Iraq. OIOS appreciates the logistical difficulties in moving documents from Iraq to Kuwait and the resulting risks involved and in these special circumstances will accept the partners explanation for the lack of adequate documentation to support the expenditures charged.

16. Most of the implementing partners explained that it was not always possible to institute open and fair procurement procedures. For example, selection of suppliers / contractors was restricted to the entities operating in the village or district. Again, for the fear of physical safety, invitations to bid were not widely circulated. *The Office of the Chief of Mission added that it was unsafe for outside bidders due to resistance from the local community.*

17. With a remote management strategy it was difficult to ensure appropriate controls were in place to mitigate the various risks identified in the Iraqi operation. In some cases to ensure adequate controls in place was neither cost effective nor feasible. IOUA explained that access to populations of concern was limited, particularly in Central Iraq. It was estimated that over 1.2 million persons were displaced at the end of 2004. Remote management does have and will continue to have a serious impact on the UNHCR's ability to discharge its core protection function.

b) Separate Ledger

18. According to the Memorandum of Understanding between UNHCR and UNDP, UNHCR was to establish a separate ledger account for the receipt and administration of the funds from undg-itf. As reported by the Board of Auditors, UNHCR did not establish a separate ledger to account for the funds received from undg-itf but blended these funds with other donor sources and posted them to the project account 04/SB/IRQ/RP/332. As a result, UNHCR had to manually compile the expenditure details from the financial reports received from the implementing partners to present the financial report to undg-itf. UNHCR explained that with the ongoing implementation of the based new ERP system (MSRP), compliance with the requirement of a separate ledger was difficult. However, UNHCR is confident overcoming this limitation upon full implementation of MSRP.

c) Programme Monitoring

19. Considering the significant limitations of the Iraq operation, OIOS appreciated and commends the initiatives put into effect by the UNHCR offices. Of particular significance were: (a) the ongoing efforts to engage a professional firm to carry out a technical evaluation of all the construction components of the 2004 programme implementation; and (b) implementation of a web-based photo library (www.cbbk.org) displaying the activities implemented in Southern Iraq in addition to the photographs and video clippings available in Amman and Kuwait.

20. OIOS noted that monthly progress reports were received from the implementing partners and analyzed on the activities implemented. Though UNHCR programme staff carried out financial verification of the SPMRs (financial monitoring reports) regularly, better results would be attainable if the financial data were matched to the actual implementation level.

21. OIOS was pleased to note that workshops and trainings on essential skills were organized for both national and international staff members of implementing partners to ensure they are aware of and well trained in UNHCR standards and guidelines (e.g. procurement).

d) Audit Certification

22. For 2004 sub-projects executed by the implementing partners, a competitive bidding exercise was conducted to select an audit firm and the selection of audit firms was at an advanced stage at the time of audit.

V. ACKNOWLEDGEMENT

23. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR in Kuwait and its implementing partners.

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