

UNITED NATIONS

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

Assignment AR2004/113/02
Audit Report 04/R030

30 September 2004

OIOS AUDIT OF UNHCR OPERATIONS IN ZIMBABWE

Auditor:
Alpha Diallo



Office of Internal Oversight Services
UNHCR Audit Service

OIOS AUDIT OF UNHCR OPERATIONS IN ZIMBABWE (AR2004/113/02)

EXECUTIVE SUMMARY

In May 2004, OIOS conducted an audit of UNHCR Operations in Zimbabwe. The audit covered activities with a total expenditure of US\$ 2.6 million in 2002 and 2003. Exit Conference Notes were shared with the Chief of Mission in May 2004, on which comments were received by June 2004. *The Chief of Mission has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR operation in Zimbabwe 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 three partners reviewed, reasonable assurance could only be taken that UNHCR funds provided to the Department of Social Welfare were properly accounted for and disbursed in accordance with the Sub-Project Agreements.
- For World Vision International (WVI), the accounting system was not adequate, and OIOS was unable to reconcile the expenditure recorded in the books of account to the final SPMRs. OIOS found that the expenditures for 2002 and 2003 sub-projects were overstated by US\$ 32,000, mainly due to incorrect cut-off between sub-project periods and the double charging of some costs. Ineligible expenditure was also identified. Moreover, the documentation supporting the expenditures was sometimes absent and/or inadequate. *An amount of US\$ 40,000 has been recovered from WVI.*
- For Southern Alliance for Indigenous Resources (SAFIRE), a local NGO, although the accounting system was assessed as adequate, difficulties arose in the ability to reconcile to the books of account due to the application of incorrect exchange rates. This resulted in an over-charge of US\$ 7,000. *SAFIRE has agreed to reimburse over US\$ 4,000.*
- OIOS assessed that financial monitoring of partners needed significant improvement. OCM certified the SPMRs without verifying the partners' books of account. OIOS' review found a number of weaknesses in the accounting and internal control systems, which could have been

identified at an earlier stage, and corrective action taken timely.

Supply Management

- AssetTrak had not been operational for two years, as no staff member was delegated this responsibility. A physical inventory was conducted in December 2003, but at the time of the audit all the data had not been entered into AssetTrak. *A staff member has now been tasked the responsibility to update AssetTrak records.*

Security and Safety

- The UNHCR office was situated in the common UN building with strong security systems. All staff had completed the mandatory Security Training, except newly recruited staff.

Administration

- In the areas of administration and finance, OCM generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. Nonetheless, segregation of duties was not always adhered to, and controls over the management of fuel needed to be strengthened. Medical claims had not been processed for an extended period due to the lack of trained staff able to operate the Medical Insurance Plan (MIP) software. *OCM has adequately addressed these issues.*

TABLE OF CONTENTS

CHAPTER	Paragraphs
I. INTRODUCTION	1-4
II. AUDIT OBJECTIVES	5
III. AUDIT SCOPE AND METHODOLOGY	6-8
III. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Review of Implementing Partners	9-14
B. Other Programme Issues	15
C. Supply Management	16-17
D. Security and Safety	18
E. Administration	19-21
IV. ACKNOWLEDGEMENT	22

I. INTRODUCTION

1. From 10 to 14 May 2004, OIOS conducted an audit of UNHCR's operations in Zimbabwe. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations. OIOS reviewed the activities of the Office of the Chief of Mission in Lilongwe and of three of its implementing partners.

2. OIOS' previous audit of UNHCR in Zimbabwe was conducted in September 1999. The review focused on 1998 project and administrative expenditures totalling US\$ 0.75 million. OIOS found that partner's books of account needed to be improved with particular reference to those for revolving funds. The consistent poor performance of income generating projects needed to be reviewed.

3. The fragile political situation in the Democratic Republic of Congo and the prevailing ethnic conflicts in Burundi and Rwanda resulted in an outflow of a number of refugees to Zimbabwe. In 2003, there were some 12,000 refugees, with this expecting to rise to 16,000 in 2004. UNHCR is continuing to strengthen self-sufficiency activities through the provision of funds, technical advice and training on running small businesses.

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 14 May 2004. Exit Conference Notes outlining the audit findings and recommendations were shared with the Office of the Chief of Mission in May 2004. The replies, which were received in June 2004, are reflected in the Audit Report. *The Office of the Chief of Mission has accepted most of the audit recommendations made and is 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-Project Agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2002 and 2003 programme activities under projects 02 and 03/AB/ZIM/LS/400 with expenditure of US\$ 2.3 million. Our review concentrated on the activities implemented by World Vision International (WVI) – expenditure of US\$ 770, 000 Ministry of Labour/ Department of Social Welfare (DSW) – expenditure of US\$ 539,000 and Southern Alliance for Indigenous Resources (SAFIRE) – expenditure of US\$ 39,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 900,000.

7. The audit reviewed the administration of the Office of the Chief of Mission in Harare with administrative budgets totalling US\$ 401,000 for the years 2002 and 2003, and assets with an acquisition value of US\$ 922,000 and a current value of US\$ 612,000 (as recorded on Headquarters AssetTrak). The number of staff working for the UNHCR Operation in Zimbabwe was seven, all of which were staff on regular posts.

8. 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

9. For the three partners reviewed, reasonable assurance could only be taken that UNHCR funds provided to DSW were properly accounted for and disbursed in accordance with the Sub-Project Agreements.

10. Audit certificates for 2002 and 2003 were received from all partners, with the exception of DSW. For WVI, a qualified opinion was expressed due to the lack of proper accounting ledgers for the UNHCR sub-project. For SAFIRE, an unqualified opinion was expressed.

Recommendation:

- The UNHCR Office of the Chief of Mission should engage an audit firm to audit and submit audit certificates for sub-projects 02/AB/ZIM/LS/400 (d\$ and 03/AB/ZIM/LS/400 (a\$ implemented by the Ministry of Labour/Department of Social Welfare (Rec.01).

(a) World Vision International

11. WVI did not effectively use their international accounting software for analysing and summarising UNHCR sub-project expenditures. As a result of this, and in the absence of a proper summary of expenditure transactions, OIOS was unable to reconcile the expenditures recorded in WVI's books of account to the SPMRs. OIOS recommended that WVI implement an effective accounting system for the tracking of and reporting on UNHCR sub-project expenditures. *WVI has agreed to re-design their accounting system to be more suitable for UNHCR's reporting requirements.*

12. OIOS found a number of errors in WVI's accounting records as well as ineligible charges such as household furniture for international staff residences. The expenditures reported in the 2002 and 2003 SPMRs were overstated by some US\$ 32,000; mainly as a proper cut-off between accounting periods had not been established. Some US\$ 22,000 related to expenditure charged in the last quarter of the 2002 sub-project as well as to the 2003 sub-project, and a further US\$ 9,000 for expenses charged twice to the 2002 sub-project. Moreover, 2002 expenditures of nearly US\$ 16,000 incurred during the liquidation period were incorrectly charged to the 2003 sub-project. WVI explained that the overstatement and errors

in changing sub-projects resulted from a misunderstanding of UNHCR reporting periods, and the fact that WVI's fiscal year was different from UNHCR's. OIOS recommended that WVI reimburse the overcharge of US\$ 32,000. *OCM confirmed that WVI has reimbursed some US\$ 40,000, which included the US\$ 32,000 referred to above as well as the other ineligible expenditures identified by OIOS for which WVI accepted were erroneously charged. Moreover, WVI has submitted a revised 2003 SPMR, which excludes the disbursements of almost US\$ 16,000 made under the 2002 sub-project.*

(b) Southern Alliance for Indigenous Resources

13. OIOS assessed that SAFIRE's accounting system was adequate for UNHCR reporting requirements. However, due to the use of frequently changed (almost daily) exchange rates applied to each expenditure transaction, the final SPMRs expressed in US Dollars could not be reconciled to SAFIRE's books of accounts. Further, due to the application of incorrect exchange rates for certain expenditure, UNHCR was overcharged by some US\$ 7,000. OIOS recommended that the application of an average monthly exchange rate would have been more appropriate in this case. *SAFIRE has recalculated the errors made and have agreed to reimburse some US\$ 4,180.*

(c) Department of Social Welfare

14. In 2002, DSW, without prior approval from UNHCR, increased staff salaries. The justification for this was on the basis of a government's decision in August 2002 to revise salary scales for civil servants. The increased salary costs resulted in a further and unbudgeted cost to UNHCR of some US\$ 36,000. OIOS noted that the salary scales for civil servants increased by about 20 per cent, but DSW awarded increases of up to 95 per cent. This meant that the relevant budget lines were overspent by some 50 percent. Other significant and unauthorized budgetary overruns were incurred by DSW for the 2002 sub-project. However, in order to 'hide' these over-expenditures they were transferred to the 2003 sub-project. Such a practice is not acceptable, as it does not reflect the true expenditure per sub-project. *OCM has instructed DSW to seek approval from UNHCR prior to incurring expenditure in excess of the approved budgets and refrain from transferring charges to the subsequent year sub-project.*

B. Other Programme Issues

15. Project financial monitoring of partners needed to be significantly improved. The SPMRs were certified by OCM without any independent verification of the partners' financial books of account. OIOS' review found a number of weaknesses in the accounting and internal control systems, for example WVI, and if this had been identified at an earlier stage, corrective action could have been taken. OIOS would emphasize the need for OCM to improve this important project management function.

Recommendation:

- The UNHCR Office of the Chief of Mission, Harare should introduce proper and systematic project financial monitoring procedures, which should include periodic visits to partners offices to review the books of account and supporting financial data (Rec.02).

C. Supply Management

16. AssetTrak had not been operational for several years. No staff was designated this responsibility, as it was stated that the Administrative Assistant was already overburdened with various other tasks. A physical inventory had been carried out in December 2003, however, although some of the data had been input into AssetTrak, the exercise had still not been completed at the time of the audit. *OCM stated that the Associate Programme Officer had been tasked with the completion of the on-going physical inventory and the updating of the AssetTrak system.* OIOS would like to be informed of the progress made to update AssetTrak.

17. OIOS assessed that the controls over the management of fuel were deficient, with one local staff member carrying out incompatible functions (purchase, record keeping, issuance of fuel coupons), without adequate supervisory review. The fuel coupons were for programme and administrative needs, but were also sold to staff members due to fuel shortages in the country. The records maintained were not adequate to monitor and control fuel issuances and running balances. *Appropriate internal control measures have now been implemented.*

Recommendation:

- The UNHCR Office of the Chief of Mission, Harare should ensure that the AssetTrak system is fully operational and up-to-date. Where necessary, guidance should be sought from the Asset Management Unit at Headquarters (Rec.03).

D. Security and Safety

18. The UNHCR office was situated in the common UN building with strong security systems. The mandatory Security Training had been completed by all staff members, except for newly recruited staff.

E. Administration

19. In the areas of administration and finance, OCM generally complied with UNHCR's regulations, rules, policies and procedures, and controls were operating effectively during the period under review. Some improvement was warranted, however these issues were adequately addressed by OCM.

20. OCM did not comply with the provisions of the UNHCR Delegation of Financial Signing Authority, IOM 67/2000 & FOM 69/2000, dated 9 October 2000. Appropriate segregation of duties was not always observed, with payments to the Head of Office often approved by himself. Also the rules for the use of the budget for Hospitality were not always adhered to. *OCM confirmed that UNHCR signing authority charts has been completed and staff functions were reviewed to ensure adequate segregation of duties.*

21. The MIP system had not been operational for the last two years. Consequently, medical claims submitted by staff members could not be processed nor any reimbursements made. According to OCM, the staff member in charge of operating the MIP system had not

been trained on the system. Further, no assistance was obtained from the Regional Representation in Lusaka, despite several requests. OIOS recommended that immediate attention be given to this issue. *OCM indicated that following a consultation with the Regional Representation, it has been agreed that the Administrative/Finance Assistant would attend the upcoming MIP training in June 2004.*

Recommendation:

- The UNHCR Office of the Chief of Mission, Harare should ensure that the MIP system is fully operational and that MIP claims are duly and timely processed (Rec.04).

V. ACKNOWLEDGEMENT

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

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