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**Internal Oversight Service
Audit Section**

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***Audit of the
Assistance to Refugee Children in Djibouti Project***

October 2009

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EXECUTIVE SUMMARY

Key Results of the Audit

At the request of the Director-General and following concerns by UNHCR of unsupported and questionable expenditures, IOS conducted an audit of the Djibouti Antenna Office. We concluded that UNESCO's expenditures under the *Assistance to Refugee Children in Djibouti* are supported and allocable to the project. The amount due to UNHCR at the end of the project is US\$8,413. However, UNESCO incurred US\$43,610 in additional costs following the expiration of the project, and these may have to be borne by UNESCO as they were not incurred under a project agreement with UNHCR. In addition, UNESCO paid US\$23,007 in a termination settlement to the Djibouti Antenna personnel and an additional US\$7,194 for social insurance costs is pending.

Weak management practices in UNESCO's Djibouti Antenna, Addis Ababa Office and the Headquarters Central Services persisted for much of the period under audit. Lessons should be learned from these practices so as to avoid future unbudgeted expenditure and disputes with partners.

If a decision to maintain the Djibouti Antenna is taken, BFC must prepare clear terms of reference and a more effective oversight of the Antenna would be required from the Addis Ababa Office.

Background, Scope and Objectives

UNESCO established the Djibouti Antenna Office to support the UNHCR funded project for *Assistance to Refugee Children in Djibouti*. Initially this project Antenna Office was managed by the UNESCO Programme of Education for Emergencies and Reconstruction (PEER) in Nairobi and, in 2004, management of the Antenna Office together with that of the project was transferred to UNESCO's Addis Ababa Cluster Office.

The project and the Antenna Office have faced a number of challenges. Both an IOS audit of the Addis Ababa Office in 2006 and a BOC review of the Djibouti Antenna Office in 2007 identified control weaknesses and raised concern about the accountability of project funds. In addition, the agreements entered by UNESCO and UNHCR for this project did not conform to the standard inter-agency agreement and were often signed late. In 2008 ERC entered negotiations with UNHCR to bring the project agreement in line with UNESCO standards, and the project remained operational during this period of negotiations. However, citing concerns about accountability of funds, UNHCR notified UNESCO in March 2009 that it was terminating the project as of April 2008, the ending date of the most recent project agreement.

As requested by the ADG/AFR and approved by the Director-General, IOS audited costs incurred under the project in order to determine whether UNESCO's project expenditures were (i) reasonable, allocable and supported, and (ii) consistent with project reports presented by the UNESCO Offices in Djibouti and Addis to UNHCR. The audit scope included UNHCR funding to the project totaled US\$241,412 for the period January 2006 until its termination in April 2008. The audit was performed in accordance with *International Standards for the Professional Practice of Internal Auditing* and included detailed examination of (i) the disbursement and treasury processes, financial controls and

compliance with UNESCO rules and regulations and (ii) unliquidated advances to project staff in order to recover these amounts from planned termination payments.

Achievements

- UNESCO's expenditures under the Assistance to Refugee Children in Djibouti are generally supported, reasonable and allocable to the project.
- The Addis Ababa Office implemented most of the 2006 IOS recommendations, for example, obtaining a budget code for the project, improving filing of supporting documents, and ensuring proper segregation of duties in the treasury process.

Challenges and Opportunities

- BOC should not allow ad hoc pre-financing of extrabudgetary project through use of a suspense account. Should pre-financing be necessary in some instances, a better controlled mechanism and approval framework needs to be established. To resolve this practice in the Addis Ababa Office, BOC should supervise the final reconciliation of expenditure records between UNESCO Addis Ababa Office and the Djibouti Antenna in order to produce concordant financial information.
- The Addis Ababa Office should finalize the reconciliation with UNHCR Djibouti records and produce a final financial report for 2006 and 2007 by 31 December 2009.
- The Addis Ababa Office should perform an inventory of the assets held at the Djibouti Antenna. UNHCR assets should be identified and returned, or otherwise disposed of in accordance with the donor's instructions.
- The report of the previous audit performed in 2006 raised the issue of a US\$ 2,033 double payment of salary to the Officer in Charge of the Djibouti Antenna in 2004. This amount was still not recovered as of May 2009. BOC has informed us that the amount has now been recovered.
- The termination settlements paid to the Djibouti staff amounts to US\$23,007. This may be subject to local social insurance totalling an additional US\$3,612. The Addis Ababa Office should consult with Legal Affairs and HRM to determine if this is the case.
- If the Djibouti Antenna is to remain operational after closure of the project, BFC should prepare clear terms of reference defining the objectives of the Antenna with corresponding accountabilities and supervision.

Table of recommendations

Recommendation 1:

We recommend that BFC reiterate to all field directors that (i) extrabudgetary agreements are to be cleared by ERC, (ii) final financial reports are to be prepared by BOC.

Recommendation 2:

We recommend that ADG/AFR propose to UNHCR that costs for termination of project staff be shared by UNHCR and UNESCO. One option would be to offset the US\$8,413 in unliquidated advances to UNESCO by a corresponding portion of the US\$23,007 in termination costs borne by UNESCO.

Recommendation 3:

We recommend that the Addis Ababa Office Administrative Officer be formally accountable for (i) reconciling the expenditure records of the Djibouti Antenna Office with the project records provided by UNHCR and (ii) preparing a financial statement to be subsequently reconciled with BOC figures. The reconciliation is to be submitted to the Comptroller no later than 31 December 2009.