



General Assembly

Distr.: General
_____ 2004

Original: English

Fifty-eighth session
Agenda items 132 and xxx

**Report of the Secretary-General on the activities of the
Office of Internal Oversight Services**

**Financing of the activities arising from Security Council
resolution 986 (1995)**

**Findings resulting from oversight activities of the
Oil-for-Food programme**

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994, 54/244 of 23 December 1999 and 56/246 of 24 December 2001, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services.

2. The Secretary-General...[takes note of its findings and encourages the concerned departments to take into account the findings and recommendations of the Office of Internal Oversight Services when conducting lessons learned exercises as a result of the Organization's experience in the "Oil-for-Food" programme].

Report of the Office of Internal Oversight Services on findings resulting from oversight activities of the Oil-for-Food programme

Summary

In light of recent events in Iraq, and pursuant to Council resolution 1483 (2003) dated 22 May 2003, the Secretary-General was requested, within a period of six months, to "...terminate within this time period, in the most cost effective manner, the ongoing operations of the "Oil-for-Food" Programme (the "Programme"), both at headquarters level and in the field, transferring responsibility for the administration of any remaining activity under the Programme to the [Coalition Provisional] Authority..."

The terms of reference of the Oil-for-Food Programme (the Programme) were established by Security Council resolution 986 of 14 April 1995, acting under Chapter VII of the United Nations Charter. The Programme, provided Iraq with the opportunity to sell oil to finance the purchase of humanitarian goods, and various mandated United Nations activities concerning Iraq. The Office of the Iraq Programme was responsible for the overall management and coordination of all United Nations humanitarian activities in Iraq under resolutions 661 (1990) and 986 (1995) and the procedures established by the Security Council and its Committee set up by resolution 661 (1990), as well as the MOU between the United Nations and the Government of Iraq. Comprehensive reports on all aspects of the Programme were provided to the 661 Committee every 90 and 180 days under each phase of the programme.

The present report highlights OIOS' major findings and recommendations in its audits of "Oil-for-Food" Programme activities. The Programme inherently involves high risks owing to: (i) the wide range and complexity of the activities carried out; (ii) the large number of United Nations organizations involved; (iii) the unprecedented level of funds; and (iv) the need in many instances to make immediate decisions based on recommended courses of action and directives by the Security Council and its subsidiary organs. OIOS found that these risks had often not been adequately prevented or mitigated.

The Oil-for-Food Programme was a new type of activity for the Organization, without similar precedents to draw upon. OIOS' audits revealed a number of shortcomings and unsatisfactory practises. Areas of particular concern were: (i) inadequate contractual management; (ii) poor coordination and monitoring of programme activities in northern Iraq; (iii) inadequate diversification of investments and banks used to issue humanitarian letters of credit for goods procured by the government of Iraq; (iv) failure to follow existing investment guidelines concerning escrow account funds held in the United Nations Treasury; and (v) serious deficiencies in internal control arrangements for the procurement of construction contractors in northern Iraq.

OIOS found that the United Nations Compensation Commission had established a number of controls in its claims review process. However, the processing of a large volume of high value and complex claims had, in OIOS' opinion, resulted in overcompensation amounting to approximately \$557 million. The Commission only accepted approximately \$3.3 million of the reductions recommended by OIOS.

It is OIOS view that the overall management of the Programme was not fully satisfactory. However, no allegations were brought to OIOS' attention of irregular activities involving Oil-for-Food programme personnel.

OIOS is also of the opinion that the Organization needs to conduct a comprehensive lessons learned review of the operations of the Oil-for-Food Programme to identify best practices, address the weaknesses in managing such a complex, high value undertaking, and establish a framework for implementing activities of a similar nature, which the Organization may be asked to carry out in the future.

DRAFT

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction.	1-3	
II. Audit findings and recommendations.		
A. Overall assessment	4 - 6	
B. Headquarters audit activities		
i. Office of the Iraq Programme.	4-10	
ii. Department of Management.	11-17	
C. Field audit activities		
i. United Nations Office of the Humanitarian Coordinator in Iraq.	18-26	
ii. United Nations Human Settlements Programme.	27-32	
D. United Nations Compensation Commission.	33-36	
E. Investigation activities [TO BE ADDED BY ID AS NEEDED]		
III. Conclusion	37	

DRAFT

I. Introduction

1. The terms of reference of the "Oil-for-Food" programme (the Programme), which were established under Security Council resolution 986 (1995) of 14 April 1995, enabled Iraq to sell oil and to use the proceeds for the purchase of humanitarian supplies. Subsequent Council resolutions have extended the programme¹.

2. The Office of Internal Oversight's (OIOS) audit responsibilities extended to the following departments and programmes within the Organization concerned with various aspects of Iraq operations:

- The Office of the Iraq Programme;
- The Office of the Humanitarian Coordinator in Iraq;
- The United Nations Compensation Commission;
- The United Nations Center for Human Settlements (UN-Habitat);
- The United Nations Monitoring, Verification and Inspection Commission;
- The United Nations Guards Contingent in Iraq; and
- The United Nations Department of Management.

3. In order to audit this wide range of organizations, OIOS established the Iraq Programme Audit Section within its Internal Audit Division to ensure adequate oversight coverage of the complex and diversified responsibilities entrusted to the Organization under the relevant Security Council resolutions. OIOS developed audit strategies to ensure effective oversight of the Programme's high-risk areas. Annex 1 provides a comprehensive list of OIOS audits conducted of the Programme's activities.

4. OIOS conducted audits both in Iraq and at United Nations Headquarters. In the period February 2000 to November 2002, a senior OIOS auditor and assisting auditors made 6 separate visits to Iraq. In addition, OIOS had up to three full-time resident auditors in Iraq who provided comprehensive on-going audits of all activities of the Programme. Moreover, meetings were also held with top management of organizations being audited including the OIP Executive Director, the UN-Habitat Executive Director, the Humanitarian Coordinator in Iraq, and the heads of United Nations agencies operating in Iraq. OIOS also consulted regularly with the audit directors of United Agencies that were operating in Iraq in order to coordinate audit coverage. These factors enabled OIOS to obtain a comprehensive understanding of the conditions under which the Organization was operating and the myriad of issues that had to be addressed.

3. The present report provides an update of significant issues identified as a result of OIOS' oversight activities with the aim of contributing to a lessons learned exercise, which in OIOS' view the Organization should conduct in order to ensure that in the future similar complex and politically sensitive operations are carried out in an effective and cohesive manner. A draft of the report was made available to the Office of the Iraq

Programme, the United Nations Compensation Commission, United Nations-Habitat, and the Department of Management. Their comments have been taken into account in preparing this final report and are shown in italics.

II. Audit findings and recommendations

A. Overall assessment

4. In OIOS opinion, audits conducted brought to light a number of serious deficiencies in the management of the Programme. Significant issues included: (i) inadequate contractual management; (ii) poor coordination and monitoring of programme activities in northern Iraq; (iii) inadequate diversification of investments and banks used to issue humanitarian letters of credit for goods procured by the government of Iraq; (iv) failure to follow existing investment guidelines concerning escrow account funds held in the United Nations Treasury; and (v) serious deficiencies in internal control arrangements for the procurement of construction contractors in northern Iraq.

5. There were also significant management deficiencies which included poor communication between the Executive Director and the Programme Analysis, Monitoring and Support Division (the Division) responsible for providing policy advice on various issues, to monitor field operations, and to advise the Executive Director. Furthermore, reporting lines and coordination between the Division and the United Nations Office of the Humanitarian Coordinator in Iraq and the Executive Director had not been clarified to enable the Division to effectively discharge its responsibilities. In OIOS' opinion this had a significant impact on the Programme's operations.

6. While these weaknesses had a significant effect on the implementation of the Programme, OIOS did not conclude that there were irregular practices carried out by the Organization's personnel. Nor was there any evidence of irregularities or improprieties brought to OIOS' attention during the operation of the Programme by third parties. [THIS SECTION TO BE MODIFIED BASED ON ID'S COMMENTS ON INVESTIGATIONS]

A. Headquarters audit activities

(i) *The Office of the Iraq Programme*

4. The Office of the Iraq Programme was established at United Nations Headquarters in October 1997 to consolidate and manage the activities of the United Nations Secretariat pursuant to Security Council resolutions 986 (1995) and 661 (1990).

Overall direction and management of the Programme's activities needed to be strengthened

5. OIOS reviewed the Programme Analysis, Monitoring and Support Division (the Division) of the Office of the Iraq Programme as well as related field monitoring, coordination and policy formulation issues to assess the efficiency and effectiveness of the Division's operations. The Division's role was to provide policy advice on various issues, to monitor field operations, and to advise the Executive Director. The audit also examined

certain issues concerning the implementation of various programme policies, for which the Division was not directly responsible.

6. OIOS concluded that within the constraints of a complex and politically sensitive programme, the Division had made substantial efforts to discharge its responsibilities including the provision of policy advice to the Office of the Iraq Programme Executive Director on a number of critical issues concerning the Oil-for-Food Programme. Despite major constraints on its ability to fulfil its obligations, the Division efficiently carried out its responsibilities. As a result of these constraints, a number of policy decisions, which were consistent with the Office of the Iraq Programme's role to coordinate and monitor activities, particularly in northern Iraq, had not been finalized, approved or implemented. In OIOS' view, the Division increasingly had been marginalized, with the effect that its efforts to coordinate Headquarters and field operations had suffered. This had a significant impact on operations and the use of resources on the high-risk areas identified. Appropriate procedures and internal controls had not been established to reduce or eliminate these risks. Some of the specific issues identified in the review were as follows:

- Communication between the Executive Director, the United Nations Office of the Humanitarian Coordinator in Iraq and the Division needed to be strengthened;
- The Division's work plans were not formally approved;
- Reporting lines and coordination between the Division, the United Nations Office of the Humanitarian Coordinator in Iraq and the Executive Director had not been clarified to enable the Division to effectively discharge its responsibilities; and
- The Memorandum of Understanding between the Office of the Iraq Programme and the United Nations Children's Fund allowed for transferring title to assets valued at approximately \$99 million procured under the 13 per cent account¹ to Local Authorities contrary to relevant Security Council Resolutions and the Memorandum of Understanding with the Government of Iraq.

7. The overall coordination of the Oil-for-Food Programme by the Office of the Iraq Programme was an essential function, which impacted the implementation of the Programme in Iraq. In OIOS' view, future operations of a similar nature need to have a clearly defined organizational structure which contributes to overall coordination and accountability for programme activities.

Management of major contracts needed improvement

¹ The 13 per cent account includes expenditures by the United Nations on programmes in northern Iraq under the Oil-for-Food Programme as established by Security Council Resolution 986 (1995).

8. The Office of the Iraq Programme entered into two key contracts for the provision of customs inspection services and oil inspection services in Iraq. OIOS found that in both cases the contracts had been made on an all-inclusive man-day-rate basis, which was not appropriate. This resulted in overpayments of approximately \$1.7 million for the purchase of equipment by the contractor because the equipment was included in the man-day-rate, instead of being paid on an actual basis. The Office of the Iraq Programme noted that the need to implement the contract on extremely short notice based on Security Council decisions had initially left the Office of the Iraq Programme with little opportunity to enter into ideal arrangements. However, in OIOS' view, since the contracts had been in effect for many years and renewed during this period there was ample opportunity to subsequently adjust the financial arrangements of the contracts.

9. OIOS was also concerned that the Office of the Iraq Programme had not established appropriate contract management procedures. Contract matters were handled directly by the Executive Director's office. In addition, since both contracts were field based, it would have been appropriate to have a contract management office under the direction of the Office of the Iraq Programme based in Iraq. Also, the contract for the provision of customs inspection agents in Iraq had been amended prior to its commencement, which was inappropriate. The Office of the Iraq Programme needed to strengthen its management of contracts, and the United Nations Procurement Division should have ensured that the basis of payment was appropriate in order to avoid additional costs to the Organization.

10. In order to correct the systemic deficiencies identified by the audit of the two contracts referred to above, it is OIOS' opinion that in similar operations in the future, clear contract procedures should be established by the responsible office. Appropriate accountability mechanisms should also be implemented for contract management at Headquarters and in the field.

(ii) Department of Management

Financial management of the Iraq escrow account

11. The Iraq escrow account was established by Security Council Resolution 986 (1995) and through a Memorandum of Understanding signed by the Government of Iraq and the United Nations for the deposit of revenues from the sale of oil authorized by the Security Council. The United Nations Treasury's responsibilities included: (i) managing the investment of oil revenues; (ii) ensuring that oil revenues received complied with the contracts approved by the oil overseers, and (iii) arranging for the issuance of humanitarian Letters of Credit for goods purchased by the Government of Iraq under the distribution plan. Proceeds from the oil sales were deposited into an account with Banque Nationale de Paris Paribas.

12. OIOS found that in general the United Nations Treasury had established appropriate internal controls for letters of credit relating to the sale of oil by the Iraqi government, and for establishing letters of credit for the payment of humanitarian goods purchased by the

Iraqi government after approval by the Security Council. However, as discussed below certain shortcomings concerning the investment of the funds needed to be addressed.

13. The United Nations common principles and policies for investments, established to mitigate risks associated with the investment of pooled funds, had not been appropriately modified in order to meet the requirements of the Iraq account, and alternative policy guidelines had not been formulated. These guidelines had not originally been established to handle the large amount of funds in the Iraq escrow account, with the result that the maximum investment with specific financial institutions had been exceeded by large margins, putting the safety of the investments at risk.

14. A similar situation existed regarding the diversification of banks issuing letters of credit for the purchase of humanitarian goods by the Government of Iraq. Because the Banque Nationale de Paris Paribas was the only bank authorized to issue humanitarian letters of credit and since these letters of credit had to be fully collateralized, approximately 72 per cent of the escrow account (about \$6.5 billion and €2.7 billion at the time of OIOS' audit) was invested with Banque Nationale de Paris Paribas. In OIOS' opinion, there was a need to diversify the issuance letters of credit and the Organization's investments among a greater number of institutions in order to mitigate financial risks. The United Nations Treasury had taken steps to increase the number of institutions authorized to issue humanitarian letters of credit. However, an insufficient number of banks were requested to make proposals, largely because the Government of Iraq was reluctant to agree to additional institutions or to approve the institutions proposed by the United Nations Treasury.

15. OIOS recommended a number of measures to strengthen the management of Iraq escrow account funds including the establishment of an investment committee to monitor the investment of the funds, and diversification of investments among a larger number of financial institutions. However, a follow-up audit conducted in 2003 found that the situation had not improved and several major recommendations had not been implemented.

Issues relating to the termination of the United Nations' role in the management of the Iraq escrow account

16. OIOS' 2003 follow-up audit examined issues relating to the termination of the United Nations' responsibilities concerning Iraq escrow account management. In this regard, Security Council Resolution 1483 (2003) noted the establishment of the Development Fund for Iraq (the Fund), to be held by the Central Bank of Iraq and requested the transfer of \$1 billion to this fund as soon as possible. The transfer was made by the United Nations on 28 May 2003 to an account in the name of the Fund with the Federal Reserve Bank of New York. However, this transfer was effected before the Fund was officially established, which according to Section 3 of the Coalition Provisional Authority Regulation Number 2 (effective 15 June 2003) was inappropriate.

17. Security Council Resolution 1483 (2003) required that five per cent of the proceeds of oil sales be deposited into the United Nations Compensation Fund. However, no

mechanism had been established to ensure the accuracy of the amount received by the Fund from the Coalition Provisional Authority. Appropriate procedures were needed to adequately monitor the amount of funds deposited.

B. Field audit activities

(i) The United Nations Office of the Humanitarian Coordinator in Iraq

18. As part of the Office of the Iraq Programme, the United Nations Office of the Humanitarian Coordinator in Iraq was responsible for managing and implementing the "Oil-for-Food" programme in Iraq. The core responsibility of the Office in central and southern Iraq was observing the distribution of humanitarian supplies and equipment purchased by the Government of Iraq. In northern Iraq, the Office was responsible for the overall coordination and monitoring of the implementation of "Oil-for-Food" programme activities by United Nations agencies pursuant to Security Council resolution 986 (1995).

Monitoring and coordination of the "Oil-for-Food" programme in northern Iraq needed improvement

19. OIOS found that the Office of the United Nations Humanitarian Coordinator in Iraq had taken significant steps to improve its operations, including establishing organizational units to deal with programme planning and operational issues. However, this was a lengthy process due to various constraints including difficulty in obtaining qualified personnel, the independence of United Nations agencies implementing the programme, and the diverse political considerations of the local authorities.

20. While the Office of the United Nations Humanitarian Coordinator in Iraq had established a Planning Coordination Section and an Operations Coordination Section, there was a need to develop a standard project framework to be followed by all United Nations agencies executing Security Council Resolution 986-funded projects. In OIOS' view, this was the single most important step to ensure that Security Council Resolution 986 funds were being used appropriately. Furthermore, as was the case with most project activities in northern Iraq, a great deal of authority for accomplishing all phases of projects had been delegated to the implementing United Nations agencies. However, post-implementation monitoring of the use of the facilities constructed by these agencies was inadequate.

21. Resettlement projects in northern Iraq involved the construction of housing and the provision of essential services for internally displaced persons. It was therefore critical that there be adequate coordination among the various United Nations agencies to provide essential complementary services such as electric power, water and sanitation, schools, primary health centres, etc. However, these facilities and services were often not provided when required, and there was no specific mechanism in place to coordinate the activities of these agencies to ensure that they were provided. For example, a review of Habitat's operation in northern Iraq, found that it was providing high capacity electrical generators and that no attempt had been made by Habitat to request the United Nations Development

Programme, which was responsible for the electricity sector, to provide electric power connections.

Personnel and administrative constraints hampered operations

22. An essential aspect of the United Nations Office of the Humanitarian Coordinator in Iraq's restructuring was the recruitment of qualified and experienced personnel. However, OIOS noted that more than a year after commencing a restructuring exercise, the Office had not recruited such staff. OIOS considered this to be a serious constraint to adequately coordinating and monitoring the programme in northern Iraq.

23. It was also essential to ensure that arrangements were in place for the continuity of operations following the departure of key personnel. At the time of OIOS' review, the Deputy Humanitarian Coordinator in northern Iraq had resigned from his position. A succession plan should have been in place in order to avoid gaps in the functioning of the programme and to ensure that relations with the Government of Iraq authorities and other United Nations agencies and programmes officials did not suffer as a result. The Deputy Humanitarian Coordinator also spent a significant amount of time in Baghdad during the absence of the Humanitarian Coordinator. This was detrimental to operations in northern Iraq, especially at the crucial time when the coordinating mechanism was undergoing major changes and staff members were relying on his guidance.

24. There was also a need to increase the coordination of administrative policies of the United Nations agencies implementing Security Council Resolution 986-funded activities. OIOS was concerned that while the programme implemented by the United Nations agencies was being fully funded under Security Council Resolution 986 and implemented under memorandums of understanding between the Office of the Iraq Programme and the United Nations agencies, administrative policies differed in many respects. As a result of OIOS' recommendation, the United Nations Office of the Humanitarian Coordinator in Iraq established the Interagency Administration Working Group to develop common policy guidelines. However, this Group did not effectively discharge its role of improving coordination of administrative matters among the United Nations agencies in northern Iraq.

Coordination with local authorities

25. In OIOS' view, further coordination between the United Nations agencies, the United Nations Office of the Humanitarian Coordinator in Iraq, and local authorities in northern Iraq would have been desirable to avoid the proposal of unrealistic projects. In particular, there was a need for local authorities to develop a longer term perspective to the planning process and to present proposals for two to three years instead of the current annual cycle. This would have contributed to a more orderly planning process by allowing for the prioritization of projects and the establishment of a sounder planning criteria.

26. In the resettlement sector, OIOS ascertained that the United Nations Office of the Humanitarian Coordinator in Iraq and the United Nations implementing agencies did not

have a major role in identifying beneficiaries for participation in internally displaced persons housing projects since lists of beneficiaries were generally provided by the local authorities toward the end of projects. This was contrary to good practice since housing resettlement projects should only commence when beneficiaries have been identified and a needs assessment has been completed. Furthermore, there was little post-implementation monitoring to ensure that the intended beneficiaries were actually occupying these houses. OIOS was therefore of the opinion that additional guidelines needed to be established in this area, and that the United Nations Office of the Humanitarian Coordinator in Iraq, in consultation with the United Nations implementing agencies, needed to provide a balanced programme monitoring solution.

(ii) *United Nations Human Settlements Programme*

27. The United Nations-Habitat Settlement Rehabilitation Programme in northern Iraq implemented project activities under Security Council Resolution 986 since Phase I of the Programme. Iraq Programme activities, which started in June 1997, were intended to resettle internally displaced persons in the northern Iraqi Governorates of Erbil, Dohuk and Suleimaniyah. Projects were being implemented by United Nations-Habitat within the following sectors: housing and shelter, education, health, water and sanitation, roads and bridges, and agricultural and public services.

Inadequate segregation of duties in the selection of contractors for construction projects

28. Because duties were not adequately segregated in the procurement function, the United Nations-Habitat programme in northern Iraq was unnecessarily exposed to the risk of fraud resulting from manipulation of the tender and contract award process. In OIOS' view, a procurement section needed to be established in the project headquarters' management team in Erbil, which would be responsible for overseeing the procurement activities of all the field offices. To successfully implement such a strategy, additional resources would be required including a qualified and experienced procurement officer and support staff.

Currency adjustment clause in construction contracts resulted in financial losses

29. The currency adjustment clause included in construction contracts provided for adjustments of up to 30 per cent of the contract value as a result of exchange rate movements. The old Iraqi Dinar used in northern Iraq was subject to significant fluctuations, as a result of political and other factors, resulting in a high risk of financial losses to Habitat. Furthermore, the United Nations had not established an exchange rate for the old Iraqi Dinar and there were no banking facilities in northern Iraq that established exchange rates. Instead, this was done informally by local merchants. Hence, there was considerable scope for currency manipulation.

30. United Nations-Habitat management agreed with OIOS' recommendation to rescind the currency fluctuation clause in construction contracts and indicated that "measures will be taken to implement the recommendation". However, a subsequent audit found that this

was not the case. Failure to mitigate the currency exchange rate risk had resulted in the loss of funds exceeding \$2 million and could result in additional financial losses in excess of \$10 million should the old Iraqi Dinar maintain its current exchange rate or strengthen further.

Weaknesses in project management

31. While the United Nations-Habitat Programme in northern Iraq had generally been successful in producing housing units and other facilities, ad-hoc management practices led to a number of shortcomings as follows:

- A lack of coordination with other agencies to provide complementary services resulted in approximately 3,200 completed houses being unoccupied for extended periods;
- Resettling the most needy internally displaced persons and vulnerable groups had not been given adequate priority;
- Project selection and allocation of completed housing were susceptible to pressure from local authorities;
- Contractors' capabilities and performance were not properly evaluated;
- There was a lack of standard operating procedures in the field offices; and
- Completed projects were not adequately evaluated.

32. In OIOS' opinion, for future large-scale operations such as those implemented in northern Iraq under the "Oil-for-Food" programme, there is a need to ensure that all United Nations organizations develop common procedures for the procurement of goods and services, including the establishment of appropriate internal controls, particularly for construction contracts to ensure cost-effective project operations and to minimize the risk of irregularities.

C. The United Nations Compensation Commission

33. The United Nations Compensation Commission (the Commission) was established by the Security Council in its resolution 687 (1991), dated 3 April 1991 to process claims and pay compensation for losses resulting from Iraq's invasion and occupation of Kuwait. As at 10 November 2003, a total of 2.6 million claims had been filed seeking compensation for alleged losses valued at approximately \$349 billion. The Commission has resolved most of these claims and awarded about \$47 billion in compensation of which \$18 billion has been paid. Claims with an asserted value of \$96 billion are still to be resolved.

34. OIOS' audits of the Commission have focussed on the processing of claims for compensation, which in OIOS' view constitutes a high-risk area. An OIOS risk assessment carried out in 2002, identified significant risks in claims processing operations (e.g. high reliance on the use of outside expertise, high reliance on the Panel of Commissioners as a control mechanism, and inadequate scrutiny of consultants' conclusions regarding claims), and in the claims payment mechanism. These risks could result in under compensation or overcompensation of claims, irregular and/or fraudulent activities, which can severely affect the Commission's reputation and its ability to complete its work. OIOS has conducted 17 audits of the Commission, and recommended downward adjustments to claims totaling approximately \$557 million. Table 1 below sets out the financial implications of OIOS' recommendations. To date, the Commission has accepted approximately \$3.3 million of these adjustments.

Table 1: OIOS recommended adjustments to amounts awarded by the United Nations Compensation Commission

Assignment title	Amounts awarded by the Commission (000's of USD)	OIOS recommended downward adjustment to amounts awarded (000's of USD)	Amount accepted by the Commission (000's of USD)
Audit of E/F ² claims, 4 th instalment	\$1,508	\$392	\$105
Audit of F3 ³ claims, Part 2 of 3 rd instalment	\$2,070,798	\$460,348	\$3,200
Audit of F2 ⁴ claims, 1 st instalment	\$72,206	\$43,000	\$0
Audit of F1 ⁵ claims, 5 th and 6 th instalment	\$111,252	\$29,000	\$0
Audit of E3 ⁶ claims, 22 nd instalment	\$13,692	\$3,550	\$0
Audit of D ⁷ claims, 1 st to 5 th instalment	\$145,097	\$488	\$20
Totals	\$2,414,553	\$536,778	\$3,325

35. At the Commission's request, the Office of Legal Affairs rendered an opinion, dated 27 November 2002 regarding the appropriate scope of OIOS audits of claims processing and resolution. The opinion concluded that apart from: "... the computation by panels of the amounts of compensation which they recommend be paid, ... it would not be proper for OIOS to review those aspects of the work of panels which are constituent elements of a legal process." The Office of Legal Affairs also stated that: "... it would be equally not proper for [OIOS] to review the advice on the basis of which those aspects of that work is conducted." In OIOS' view, the Office of Legal Affairs' opinion would effectively restrict any meaningful audit activities of the claims process. Moreover, OIOS would not be able to comply with United Nations internal audit standards, and OIOS' mandate as approved by the General Assembly (in resolutions 48/218 B of 29 July 1994 and 56/246 of 24

² "E/F" claims involve export guarantee and insurance claims submitted under both categories "E" and "F".

³ "F3" claims are filed by the Government of Kuwait, excluding environmental claims.

⁴ "F2" claims are filed by the Governments of Jordan and Saudi Arabia.

⁵ "F1" claims are for losses incurred in connection with the departure and evacuation of individuals and for damage to property belonging to governments and to international organizations.

⁶ "E3" claims are made by non-Kuwaiti corporations and are related to construction and engineering, excluding those involved in the oil sector.

⁷ "D" claims are individual claims for damages above \$100,000 each.

December 2001) would be severely compromised. Therefore, on ?? 2004 OIOS informed the Commission that it would cease its internal audit activities effective xxx.

36. In OIOS' opinion, the establishment of compensation commissions or similar bodies, which do not involve a judicial process, should clearly specify that claims are subject to audit in order to reduce the risk of claims being paid on an inappropriate basis and to help mitigate the risk of irregular activities.

III. Conclusion

37. OIOS is aware of the difficult circumstances encountered by the Organization in Iraq. In this regard, the deficiencies and problems discussed in this report show that there are important lessons to be learned from the unprecedented demands placed on the Organization in operating the "Oil-for-Food" programme and related activities. In OIOS' opinion, it would be in the best interests of the Organization to conduct a comprehensive lessons learned review of all aspects of the Programme's activities in order to establish a general framework for future activities of a similar nature which the Organization may be requested to carry out and to maximize best practices. Such a review should take into account the findings and recommendations as set out in this report.

Notes

¹ Phases I to XIII of the "Oil-for-Food" programme were as follows:

Phase I	10 December 1996 to 7 June 1997
Phase II	8 June 1997 to 4 December 1997
Phase III	5 December 1997 to 29 May 1998
Phase IV	30 May 1998 to 25 November 1998
Phase V	26 November 1998 to 24 May 1999
Phase VI	25 May 1999 to 11 December 1999
Phase VII	12 December 1999 to 8 June 2000
Phase VIII	9 June 2000 to 5 December 2000
Phase IX	6 December 2000 to 3 July 2001
Phase X	4 July 2001 to 30 November 2001
Phase XI	1 December 2001 to 29 May 2002
Phase XII	30 May 2002 to 4 December 2002
Phase XIII	5 December 2002 to 3 June 2003



**Office of Internal Oversight Services activities concerning the
Oil-for-Food Programme**

	<u>Assignment title</u>	<u>Recommendations</u>			<u>Remarks</u>
		<u>Total issued</u>	<u>Critical</u>	<u>Accepted by client</u>	
Office of the Iraq Programme					
	Preliminary review of the Office of the Iraq Programme procedures pursuant to Security Council Resolution 1472 (2003)	4	4	1	Advisory review
	Audit of the Office of the Iraq Programme Analysis, Monitoring and Support Division				Report was not issued
	Audit of management of the contract for customs inspection services	25	10	21	
	Review of Security Council Resolution 986 (1995) programme activities in Iraq	10	4	10	
	General Assembly report (A/56/903)- Update of oversight activities concerning the Oil-for-Food Programme and the United Nations Compensation Commission	N/A	N/A	N/A	
	Audit of the management of oil inspection services contract	21	8	12	
	Review of the Office of the Iraq Programme/United Nations Office of the Humanitarian Coordinator in Iraq operations in Northern Iraq	8	2	8	
	Audit of the budgeting practices of Security Council Resolution 986 - 2.2 percent account	10	3	7	
	Audit of the Office of UNOHCI Headquarters	7	0	7	
	Audit of the Office of the Iraq Programme/United Nations Office of the Humanitarian Coordinator in Iraq operations in Northern Iraq	5	4	5	
	Audit of the Office of the Iraq Programme -funded Department of Economic and Social Affairs-executed project IRQ 97003	6	0	4	
	Audit of the Oil-for-Food Programme	6	0	6	
	Audit of the contract for the supply of inspection agents in Iraq	4	0	0	
	<i>Subtotal</i>	<i>106</i>	<i>35</i>	<i>81</i>	
United Nations Office of the Humanitarian Coordinator in Iraq					
	Audit of liquidation planning	11	6	9	
	Pre-liquidation audit of human resources management	7	6	3	
	Audit of procurement issues	9	1	8	
	Audit of financial management	17	1		Awaiting reply
	Audit of procurement activities	35	12	28	
	Audit of the information technology and communications	33	1	30	
	Audit of the procurement of construction and other equipment	32	7	31	
	Audit of petty cash funds	7	2	7	

	Audit of the deployment of international observers in Iraq	3	2	3	
	Audit of security issues in Northern Iraq	7	1	7	
	Audit of cash operations in Northern Iraq	26	10	25	
	Audit of hazard pay	18	7	14	
	Summary report on the audits of the United Nations Office of the Humanitarian Coordinator in Iraq by Resident Auditor from June 1997-July 1998	9	0	9	
	Audit of the United Nations Guards Contingent in Iraq				No reply received
	Audit of the processing of voucher for reimbursement of travel expenses				No reply received
	Audit of the Medical Services Unit				No reply received
	<i>Subtotal</i>	<i>214</i>	<i>56</i>	<i>174</i>	
United Nations Human Settlements Programme					
	Audit of the United Nations-Habitat Settlement Rehabilitation Programme - Liquidation planning	9	4		No reply received
	Audit of the United Nations-Habitat Settlement Rehabilitation Programme- Asset management	5	3		No reply received
	Audit of the United Nations-Habitat Settlement Rehabilitation Programme - Processing of payments of interim and final invoices for construction contracts	10	4	10	
	Audit of the United Nations-Habitat Settlement Rehabilitation Programme Northern Iraq	43	12	40	
	Audit of the United Nations -Habitat Settlement Rehabilitation Programme in Northern Iraq	27	8	27	
	Audit of the United Nations Habitat Settlement Rehabilitation Programme in Northern Iraq	55	0	50	
	<i>Subtotal</i>	<i>149</i>	<i>31</i>	<i>127</i>	
United Nations Compensation Commission					
	Audit of the United Nations Compensation Commission -E1 – 10 th installment				Ongoing
	Audit of F3 claims, Part 2 of 3 rd installment				Not yet issued
	Management review of United Nations Compensation Commission phase-out activities	34	8	31	
	Audit of E3 claims, 22 nd installment	3	3	1	
	Audit of D claims – problems and suggestions	4	4	4	
	Audit of D claims processing	6	3	5	
	Audit of F1 claims, 5 th and 6 th installment	18	17	1	
	Audit of F2 claims, 1 st installment	5	5	5	
	Audit of E/F claims, 4 th installment	7	7	4	
	Risk assessment of the United Nations Compensation Commission	N/A	N/A	N/A	
	Audit of the procurement of consultancy services	5	4	5	

	Audit of claims payment and administration	2	0	1	
	Audit of the United Nations Compensation Commission's personnel function	15	0	15	
	Audit of the contract award for F2 claims review	1	0	1	
	Audit of information technology management at the United Nations Compensation Commission	10	0	10	
	Management review of the United Nations Compensation Commission	8	0	7	
	Consulting review of the United Nations Compensation Commission's budgetary procedures				Consulting assignment
	Review of the implementation of the United Nations Compensation Commission's integrated database – An interim report				Consulting assignment
	<i>Subtotal</i>	<i>118</i>	<i>51</i>	<i>90</i>	
Department of Management					
	Follow-up audit of the United Nations Iraq account treasury and cash management functions	19	9		Awaiting reply
	Audit of the treasury and cash management functions of the escrow account	13	4	11	
	<i>Subtotal</i>	<i>32</i>	<i>13</i>	<i>11</i>	
	TOTAL	619	186	483	

