



## INTERNAL AUDIT DIVISION

### REPORT 2016/049

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Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Overall results relating to the effective management of the operations in South Sudan were initially assessed as unsatisfactory. Implementation of two critical and four important recommendations remains in progress

FINAL OVERALL RATING: UNSATISFACTORY

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# AUDIT REPORT

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNHCR Representation in South Sudan (hereinafter referred to as ‘the Representation’) was established in 2012 to provide refugees, asylum-seekers, and other persons of concern with international protection and humanitarian assistance. Since December 2013, around 1.6 million people have been displaced in South Sudan as a result of growing violence between the government and opposition forces. In 2014, the United Nations declared the highest level of crisis response status (level three emergency) in the country, which was still ongoing at the time of the audit. As at 30 September 2015, the Representation assisted, in addition to 1.6 million Internally Displaced Persons (IDPs), 265,235 refugees of whom 92 per cent were from Sudan and who were residing in 10 camps and settlements.
4. The Representation prioritized the upgrade of emergency structures in all camps and the enhancement of shelter, health, education, and water, sanitation and hygiene services for Sudanese refugees in its Country Operations Plan for 2015. Basic services, self-reliance and identification of durable solutions were intended to be pursued for non-Sudanese refugees remaining in camps and settlements. Within the IDP response cluster system, the Representation led the protection cluster, co-led the camp management cluster, and participated in the non-food item (NFI) and shelter cluster.
5. The Representation had a Country Office in Juba, two Sub Offices in Bunj and Jamjang, 10 Field Offices in Yambio, Yei, Bor, Rumbek, Nimule, Wau, Kuajok, Malakal, Bentiu and Yida, and one Field Unit in Mingkaman. Due to challenging infrastructure and security concerns, only two of these offices could be reached by road from Juba throughout the year, with the others being reached by air. The Representation was headed by a Representative at the D-1 level. As at 30 September 2015, the Representation had 377 staff posts and 50 affiliate staff. The Representation had total expenditure of \$142.0 million in 2014 and \$97.2 million in the nine-month period up to 30 September in 2015. The Representation worked with 21 partners in both 2014 and 2015. The Representation operated in United Nations security levels four and five but all its offices were Minimum Operating Security Standards compliant.
6. Comments provided by UNHCR are incorporated in italics.

### II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of UNHCR governance, risk management and control processes in providing reasonable assurance regarding the **effective management of UNHCR operations in South Sudan**.

8. The key controls tested for the audit were: (a) strategic planning; (b) project management; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Strategic planning** - controls that provide reasonable assurance that the Representation's strategic planning for its programme and protection activities is implemented in alignment with the UNHCR global strategic priorities and in accordance with established planning procedures and guidelines.

(b) **Project management** - controls that provide reasonable assurance that there is proper planning and implementation as well as accurate and complete monitoring and reporting of the Representation's project activities.

(c) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the management of the operations in South Sudan; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit from September to December 2015. The audit covered the period from 1 January 2014 to 30 September 2015. This audit was conducted as part of a joint mission with UNHCR Inspector General's Office. OIOS visited five UNHCR offices in South Sudan (Juba, Bunj, Jamjang, Yida and Yambio) and eight refugee camps.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

12. The UNHCR governance, risk management and control processes examined were initially assessed as **unsatisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management of UNHCR operations in South Sudan**. OIOS made seven recommendations to address the issues identified.

13. The Representation had adequate controls in place for strategic planning. However, there was a critical need for the Representation to: i) strengthen management supervision and oversight arrangements over vendor management and procurement activities; and ii) ensure that assets are physically verified, asset records are updated and unrecorded assets are accounted for. In addition, the Representation needed to: i) put in place a comprehensive and coordinated system of project monitoring; ii) adequately manage procurement undertaken by partners on behalf of UNHCR; iii) effectively monitor inventory management and distribution of NFIs; iv) enhance monitoring of construction activities; and v) conduct effective planning of the vehicle fleet and implement adequate controls over fuel management.

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<sup>1</sup> A rating of "unsatisfactory" means that one or more critical and/or pervasive important deficiencies exist in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of two critical and four important recommendations remains in progress.

Table 1  
Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNHCR operations in South Sudan	(a) Strategic planning	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(c) Regulatory framework	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
<b>FINAL OVERALL RATING: UNSATISFACTORY</b>					

### A. Strategic planning

The Representation had adequate controls in place for strategic planning

15. In accordance with the UNHCR Global Management Accountability Framework, the Representation prepared a Country Operations Plan for 2015 that was aligned with UNHCR's global strategic priorities and based on an assessment of the needs of the population of concern following a participatory assessment approach. Participatory assessments were conducted by multi-functional teams for main populations of concern in all locations. The Representation linked its planned objectives to project activities and resource requirements. It also developed a protection strategy and a contingency plan for its operations, and implemented standard operating procedures for key protection priorities. OIOS concluded that the Representation had adequate arrangements in place for strategic planning.

### B. Project management

Action was being taken to ensure adequate procedures were in place for selecting partners and signing of partnership agreements

16. The UNHCR Policy on Selection and Retention of Partners requires the Representation to select and/or retain the best-fit partners for its projects following an objective and transparent selection process. The UNHCR Manual requires the Representation to prepare and finalize Project Partnership Agreements (PPAs) in December of the year preceding the year of project implementation.

17. A review of the procedures implemented by the Representation during 2014 and 2015 for the selection and retention of partners indicated a lack of a fully transparent and competitive process, as well as delays in signing PPAs. This was mainly due to other emergency related priorities and the highly volatile security situation during the audit period.

18. However, at the time of the audit, for the 2016 programme, the Representation was in the process of implementing an adequate partner selection process and a plan to ensure that all PPAs were prepared, negotiated and signed by partners by 15 December 2015. Based on the action that was being taken by the Representation, no recommendation was made in this regard.

There was a need to put in place a comprehensive and coordinated system of project monitoring

19. The UNHCR Manual requires the Representation to monitor partners' project activities on an ongoing basis to assess whether projects are proceeding as planned. The Representation is required to prepare an annual risk-based monitoring plan to ensure that the resources are focused on monitoring those partners assessed as higher risk. A multi-functional team approach needs to be followed during the monitoring process.

20. The Representation reported project expenditures implemented through partners worth \$76.2 million for 2014 and \$42.3 million for the 9-month period up to 30 September 2015.

21. OIOS review of the Representation's project monitoring activities indicated the following:

- The Representation conducted 60 financial monitoring visits to partners, which was at least one visit per partner per year. These visits were conducted in isolation from project performance monitoring activities, as financial monitoring was conducted by staff from the Country Office in Juba whereas performance monitoring was undertaken by staff in the Sub and Field Offices. The monitoring reports were not shared between the performance and financial monitoring teams.
- The Sub Offices in Bunj and Jamjang, representing 65 per cent of total project expenditures, prepared semi-annual performance monitoring reports which contained an assessment of the partners' progress in project implementation against targets agreed. However, the performance monitoring reports in Yambio and Juba did not include any assessment of the partners' progress against the agreed targets.
- The project control team prepared a risk assessment for each partner and assessed four partners as high risk. However, this risk assessment was not used to prepare the annual financial monitoring plan. Three of these four partners were only visited once in both 2014 and 2015, which was the same number of visits as to those partners assessed as low and medium risk.
- The Representation required the partners to regularly report on the implementation of recommendations raised in monitoring and project audit reports, and the Representation stated that it reviewed the responses from partners. However, this process was not documented. As a result, it was not evident whether the Representation accepted the explanations of the partners or whether additional corrective measures and action plans were needed, especially for observations questioning the validity of reported expenditures and project under-performance.

22. The above resulted as the Representation had not adequately planned and coordinated the monitoring activities between staff in all sections and locations involved in financial and performance monitoring. Consequently, there was a risk that the Representation was accepting project financial reports from partners when their project performance needed improvement or internal controls were weak. This exposed the Representation to risks related to loss or inefficient use of project funds and in not achieving its programme and project objectives.

**(1) The UNHCR Representation in South Sudan should establish: (i) a risk-based project monitoring plan; (ii) a multi-functional monitoring team for each project to ensure integrated financial and performance monitoring and systematic assessment of project performance against targets; and (iii) procedures for documenting the follow-up on**

**recommendations contained in monitoring and project audit reports.**

*UNHCR accepted recommendation 1 and stated that: (i) a mechanism for follow-up on performance of implementing partners in South Sudan was being carried out; (ii) all offices in South Sudan had been tasked with the responsibility of establishing multi-functional teams to monitor projects that were being implemented within their area of operations; and (iii) the Representation was ensuring that the monthly reports received from the partners were validated as per the reports emanating from the monitoring visits undertaken at the project implementation sites. Recommendation 1 remains open pending submission of evidence of the implementation, in all locations, of integrated financial and performance monitoring together with follow-up on recommendations raised in previous monitoring and project audit reports.*

The Representation needed to strengthen management supervision arrangements over planning and monitoring of procurement by partners

23. The UNHCR Policy and Procedures on Procurement by Partners with UNHCR Funds requires the Representation to designate partners for the procurement of goods and services after assessing the Representation's overall annual procurement needs and the partners' comparative advantage to undertake procurement on UNHCR's behalf based on an assessment of their capacity and a cost-benefit analysis. After having entrusted partners with procurement authority, the Representation should assess their compliance with the agreed procurement rules and procedures.

24. In 2014 and 2015, the Representation delegated procurement authority to 21 partners totaling \$17.8 million.

25. For the 2014 projects, the Representation did not conduct an assessment of the comparative advantage of its partners to undertake procurement on UNHCR's behalf. For 2015, while the Representation conducted an assessment and documented its decision to entrust procurement to partners, the decision was not supported by an objective cost-benefit analysis and an evaluation of partners' capacity to conduct procurement. The decision also did not take into account that many of the items delegated to partners to procure included, *inter alia*, goods and services such as transportation, fuel, spare parts and drugs, which were also procured directly by the Representation under existing frame agreements. Instead, the decision was based on a qualitative evaluation of the Representation's past experience with each partner.

26. The Representation reviewed partner procurement activities as part of the financial verification visits to partners but the Supply Unit was not part of the monitoring teams. As a result, these reviews lacked the necessary scrutiny of procurement related activities. For example, for two of the six partners visited by OIOS, control weaknesses were observed in their procurement practices, which the Representation had not identified and addressed. These weaknesses included: (a) lack of competitive bidding for procurement totaling \$609,000; and (b) unjustified selection of a bid that resulted in a higher cost by \$56,000 compared to the lowest bid.

27. The above resulted as the Representation did not assess its overall procurement needs prior to entrusting procurement to partners, and did not have adequate management supervision arrangements in place to ensure compliance with the UNHCR requirements for planning and monitoring of procurement by partners. As a result, the Representation was exposed to a risk of not obtaining value for money from the designation of procurement to partners.

**(2) The UNHCR Representation in South Sudan should implement controls to ensure that: (i) the needs for procurement by partners are determined as part of the annual procurement**

**planning process; (ii) the decisions to designate procurement to partners are based on an assessment of each partner's capacity to procure and a cost-benefit analysis; and (iii) monitoring of procurement activities of partners systematically involves supply staff.**

*UNHCR accepted recommendation 2 and stated that: (i) the Representation's Supply Unit, in coordination with Project Control and Programme, had undertaken the verification of the partner procurement process, which was completed by 31 March 2016; (ii) while monitoring of partners' procurement was being done in accordance with the procurement plan, the procurement undertaken by partners would also be cross-checked or verified through the financial verification and performance reports to ensure that there was compliance to recommended procurement procedures and guidance; and (iii) all financial verifications would be undertaken by supply staff forming part of the multi-functional team. Recommendation 2 remains open pending submission of evidence of: (a) the assessment undertaken of each partner's comparative advantage to procure on UNHCR's behalf; and (b) the implementation of systematic monitoring of partner procurement activities with the involvement of staff from the Supply Unit.*

There was a need to develop and implement adequate procedures for inventory management and monitoring of distribution of non-food items

28. The UNHCR Manual requires the Representation to implement adequate inventory management controls over planning, recording, receipt and issuance of stock. The UNHCR Handbook for Commodity Distribution requires the Representation to monitor the NFI distribution system to ensure that the planned number of persons receive the specified quantities of NFIs by: (a) visiting ongoing NFI distributions to assess that they are implemented as planned; and (b) collecting and reviewing copies of the distribution lists signed by the beneficiaries, and reconciling the number of NFIs distributed with those issued from the warehouse.

29. The Representation distributed NFIs, including shelter materials, both through direct implementation and through partners valued at \$15.0 million in the audit period.

30. A review of the Representation's inventory management and NFI distribution practices indicated the following:

- The inventory contents of eight warehouses in South Sudan valued at \$550,000 were not recorded in the UNHCR inventory management system. These warehouses were meant to serve as temporary inventory storage before distribution; however, in practice inventories were stored for a long time. This meant that NFI inventories received and kept in these warehouses were recorded as expensed and distributed when they were still in storage.
- The Representation was not reconciling the issuances of NFIs from the warehouses to the individual distribution reports presented by the partners. OIOS reconciled the overall quantities between items issued and distributed for the period under review and observed that warehouse issuances were higher than the reported distributed items, albeit only by a difference of \$118,000 (1 per cent of the total value of distributions recorded), which the Representation could not explain.
- Although the Representation stated that all partners returned items left over after distribution to the warehouses, there was no audit trail to support this. The warehouse records were also incomplete as they did not show from which distribution locations the NFIs were returned and whether or not the returned number tallied to the actual number left over after distribution.
- The Representation stated that it was present at most NFI distributions, but it did not have documentation or other evidence to support this assertion.



- The Representation had signed lists evidencing receipt of the items by the beneficiaries, except for soap and sanitary items estimated at \$1.5 million that were distributed during general monthly distributions in the refugee camps. Although the Representation conducted beneficiary identification by scanning refugee ration cards, the number of items actually distributed was not tallied to the number of refugee cards scanned at any of the distribution sites.

31. The main reasons for the above weaknesses were that the Representation had not put in place adequate controls over recording of NFI inventory in warehouses and had not developed and implemented local procedures on how partners should conduct and report on NFI distributions and how the Representation staff should monitor and review distribution activities. As a result, the Representation's inventory records were understated and expenditure overstated by \$550,000, and the Representation could not ensure that all items distributed had reached the intended beneficiaries.

**(3) The UNHCR Representation in South Sudan should implement procedures for: (i) recording inventory stored in all warehouses; (ii) assigning clear responsibilities for non-food item (NFI) distribution activities; (iii) reconciling NFIs issued and distributed; and (iv) reviewing distribution lists to ensure they are systematically signed by the beneficiaries as evidence of receipt of the NFIs.**

*UNHCR accepted recommendation 3 and stated that: (i) standard operating procedures for the distribution of NFIs had been updated and NFI focal points had been identified in each field office; (ii) a guidance note on NFI reporting had been finalized and monthly reports were being submitted by concerned offices since January 2016; and (iii) the review of distribution lists mainly kept at the field offices undertaking the distributions had been institutionalized. The Representation had also put in place a system to obtain thumb-prints or signatures to confirm items were delivered to intended beneficiaries, while a spot-monitoring measure was being piloted for monthly soap distribution for refugees (alongside general food distribution). Recommendation 3 remains open pending submission of evidence that inventory in all warehouses have been recorded in the inventory system.*

#### The Representation needed to enhance monitoring of construction activities

32. The UNHCR Manual requires the Representation to monitor its construction activities through on-going review to ensure that they are proceeding according to plan, in terms of quality, timing and cost. PPAs require partners to submit to the Representation all construction contracts, plans, bills of quantities, specifications and cost estimates for review. For directly implemented constructions, the Representation is required to monitor contract execution linked to the contractor's performance. The Representation should further determine the ownership of completed constructions by signing the right of use or transfer of ownership agreement for the constructed assets.

33. The Representation constructed, through partners and direct contracting, buildings and facilities costing \$23.5 million in the period under review.

34. The Representation kept the bills of quantities, cost estimates and designs for all constructions. However, OIOS review of available monitoring reports noted that the Representation was not systematically assessing the construction project's progress against the plan and did not indicate reasons for delays and what corrective measures the Representation had taken. For example, the Representation had not taken sufficient corrective action on low quality schools constructed by a contractor in Yambio with a value of \$300,000. OIOS observed holes and cracks on the floors, deformation of wooden window frames and a collapsed fence. The Representation had already paid the retention fee to the contractor.

35. The Representation had also not prepared right of use agreements or transfer of ownership agreements for the constructed buildings completed in 2014 by partners with a total value of \$5.1 million. The completed buildings, located within and outside of refugee camps, were already used by partners and government authorities.

36. The main reasons for the above weaknesses were the lack of local monitoring procedures to guide staff and the lack of qualified staff for the monitoring of construction activities. As a result, the Representation was at risk of not completing its construction projects on time or at the required standard. In addition, there was a risk of unclear ownership of constructed buildings.

**(4) The UNHCR Representation in South Sudan should develop local procedures and reallocate sufficient resources for monitoring of construction projects to ensure that they are completed on time and at the required standard and that completed buildings and facilities are formally handed over to partners and government authorities.**

*UNHCR accepted recommendation 4 and stated that the Representation had allocated resources to ensure timely and effective monitoring of construction activities. A monitoring mechanism had been developed in each field location while a more standardized system/format was being developed at the Representation level. The Representation was also putting in place a standard certificate to be used upon confirmation/certification of the completion of the construction work. Construction projects that were carried out in support of the host communities were handed over directly to the local communities or host government upon completion. Construction activities such as schools, community centers, primary health centers, etc., that were camp-based were handed over by the partner to UNHCR upon completion of such construction. Based on the action taken and documentation provided by UNHCR, recommendation 4 has been closed.*

#### Adequate procedures were in place for funding received from the Common Humanitarian Fund

37. The Common Humanitarian Fund (CHF) mechanism allocates earmarked funds to project activities within the Consolidated Appeals Process for South Sudan, addressing the highest humanitarian needs. The Representation can apply for these earmarked funds by submitting a project proposal to the Technical Secretariat of CHF for review and approval by the Humanitarian Coordinator. To meet the monitoring and reporting requirements of CHF funded projects, the Representation is required to track project activities and expenditures and ensure an adequate audit trail in this regard.

38. The Representation had three projects funded by CHF totaling \$2.0 million in 2014 and 2015. These were stand-alone projects and the Representation ensured that the earmarked CHF funds were not co-mingled with its other funding sources. The Representation submitted the three project proposals with the required budgets and log frames, which were approved by the Humanitarian Coordinator. The Representation reported on project implementation at the mid-term and final stages for all three projects, provided the relevant documentation supporting the expenditures reported and undertook the required project completion activities. As the tracking and reporting of CHF expenditures and project activities was time-consuming and inefficient, requiring coordination from several staff from different sections, the Representation assigned a focal point and put in place an off-line system for enhanced monitoring of CHF expenditures and activities. OIOS concluded that the Representation had adequate procedures in place for managing CHF funding.

## C. Regulatory framework

### There was a critical need to strengthen management supervision and oversight arrangements over vendor management and procurement

39. The UNHCR procurement rules and procedures require the Representation to prequalify vendors, and to evaluate and record them in its vendor database. The Representation's Vendor Review Committee (VRC) is required to oversee the implementation of the vendor registration process. The Representation is further required to develop an annual procurement plan, and implement competitive and transparent procurement processes, which includes minimum bidding times for requests for proposal and invitations to bid. Relevant committees on contracts are required to review contracts valued at above \$20,000. Contracts should only be renewed once, upon an evaluation of satisfactory vendor performance, before a full competitive bidding exercise should be repeated.

40. The Representation revised the composition of its VRC on 28 January 2015; however, the Committee did not hold a meeting until 2 October 2015. The Representation had only 60 vendors recorded in the vendor database, although it was issuing procurement solicitation documents to many more vendors. For instance, the Representation was using vendors from the vendor database of another UNHCR Representation, without independently registering them and vetting them for the purpose of the South Sudan operations. Also, a review of the database for the 60 registered vendors showed that 28 had incomplete documentation to support their registration. The Representation had also not implemented proper vendor vetting procedures, and had not developed and implemented vendor evaluation checklists or vendor performance assessments.

41. The Representation did not have a procurement plan for 2014. A review of the 2015 procurement plan indicated that it was not sufficiently comprehensive because it only included planned acquisitions of goods and services for programme and not for office administrative requirements.

42. OIOS review of 47 contracts totaling \$35.5 million indicated the following:

- The Representation had not provided for the minimum recommended bidding period to vendors for any of the 47 contracts, as only 2 to 10 days were given to submit bids, instead of the recommended bidding period of four to six weeks. There were also no justifications documented for these deviations, increasing the risk of fraud.
- The Representation's Local Committee on Contracts (LCC) approved extensions of the same contracts more than once without enforcing the need to conduct competitive re-bidding and without ensuring that the Supply Unit had assessed the vendor performance as satisfactory. This was for five contracts with values totaling \$14.3 million, including contracts for the procurement of fuel for \$2.8 million and road maintenance services for \$11.1 million.
- The Representation approved 11 contracts totaling \$917,938 in 2014 without submitting them to the LCC for review and approval before the contracts were signed. In each case, the value of the contracts was above \$20,000.

43. The Representation constructed several office administrative buildings (UNHCR staff accommodation, canteen and conference hall) in two Sub Offices costing \$2.0 million; without conducting a competitive bidding process. Instead, the Representation requested a partner to construct them. The reason for this deviation from normal sourcing of contractors appeared justified, on the basis that competent local contractors were not available, and the Representation had no staff with the required expertise to supervise such work. However, the Representation had not obtained the required approval

from the Headquarters Committee on Contracts; and used the programme budget for \$1.4 million (out of the \$2.0 million) to fund the construction activities without the necessary delegation of authority.

44. The main reason for the above control deficiencies was inadequate management supervision and oversight arrangements to ensure implementation of the required procurement planning, vendor management, contract management and tendering procedures. As a result, the Representation was exposed to a risk of engaging with vendors who were not genuine, not getting value for money from the procurement activities, and increased potential for fraud.

**(5) The UNHCR Representation in South Sudan should strengthen its management oversight arrangements over vendor and procurement management by: (i) implementing appropriate vendor registration procedures; (ii) developing comprehensive annual procurement plans; (iii) putting in place procedures to support the extension of contracts based on competitive re-bidding and/or satisfactory vendor performance; (iv) implementing controls to ensure that contracts above \$20,000 are systematically reviewed by the relevant Committee on Contracts; and (v) correctly recording costs related to the construction of office administrative buildings.**

*UNHCR accepted recommendation 5 and stated that: (i) the Representation now had a functional VRC; (ii) the 2016 consolidated procurement plan was completed; (iii) all contract extensions were now subject to a satisfactory vendor performance evaluation process, prior to the extension of the contract; (iv) a monthly spent analysis had been implemented; and (v) after careful consideration and consultations with relevant divisions in headquarters, UNHCR was of the opinion that an adjustment between budget categories from the previous year was not required in this case. Recommendation 5 remains open pending submission of: (a) an action plan for completing the vendor vetting and registration procedures for all vendors the Representation is using; and (b) evidence that the Representative in South Sudan has been reminded that exceptions to the authority delegated to the Representation remain with the relevant committees such as in this case the UNHCR Budget Committee and the Headquarters Committee on Contracts.*

#### Physical verification of assets and updating of asset records required significant improvement

45. UNHCR rules require the Representation to physically verify at least annually all Property, Plant and Equipment (PPE) and Serially Tracked Items (STIs) assets, update asset records and account for any differences encountered. The Local Asset Management Board (LAMB) is responsible for overseeing the management of assets.

46. The Representation recorded at the end of September 2015 162 PPEs with a purchase value of \$6.7 million and 3,836 STIs with a purchase value of \$5.6 million.

47. The asset records for both PPE and STIs were not accurate and reliable as shown in the following examples:

- The Representation had not conducted the annual verification of PPE in a comprehensive manner and the audit detected at least 31 PPEs with a value of \$4.8 million that had not been recorded in UNHCR asset records when they were purchased.
- The Representation had 45 PPEs with an acquisition cost of \$1.7 million which were recorded but not verified since 2013 increasing the risk of loss through theft. OIOS attempted to locate them but could not. Four of these PPEs had been submitted to the LAMB for disposal in 2014, but the corresponding records had not been updated.

- Ninety-five per cent of the STIs with acquisition value of approximately \$5.4 million were not verified annually in 2014 or 2015. In total, 1,907 items were never verified since their acquisition, dating back to 2002. Therefore, their existence was uncertain. As a result, STI asset records were not up-to-date and even though some of the offices in the field had conducted recent physical verifications, the results of these verifications were not yet reviewed, reconciled and reflected in the STI records.

48. The main reasons for the above deficiencies were lack of monitoring by management and inadequate oversight by the LAMB to ensure that asset management procedures, including annual physical verifications, were implemented as required and that sufficient resources were assigned for this undertaking. As a result, the Representation's asset records were unreliable and incomplete. There was also a risk that assets were lost or in poor condition whilst no accountability could be established, and the asset records were understated by at least \$4.8 million.

**(6) The UNHCR Representation in South Sudan should develop and implement an action plan that assigns adequate resources and clear responsibilities, including for monitoring by management and oversight by the Local Asset Management Board, to ensure that all assets are physically verified, records are updated and missing items are accounted for.**

*UNHCR accepted recommendation 6 and stated that the Representation conducted a country-wide physical verification in 2015 and early 2016. Of the 833 PPEs, 97 per cent (804) were physically verified and updated in the accounting records. The remaining 3 per cent (29 items) were being considered for possible write off. With regards to STIs, a LAMB meeting was held for disposal of non-existing STIs. 1,952 items were recommended for disposal. Recommendation 6 remains open pending submission of the updated asset records for both PPEs and STIs, including for the previously unrecorded \$4.8 million worth of PPEs, and evidence of accounting for differences found during the physical verifications.*

The Representation needed to conduct effective planning of the vehicle fleet and implement adequate controls over fuel management

49. According to UNHCR Operational Guidelines for the Management and Use of UNHCR Vehicles, the Representation is required to determine and justify the size of its fleet by linking it to its operational requirements and basing it on a needs assessment. The Representation is also required to analyze monthly fuel consumption as well as aggregated fuel consumption, determine fuel consumption norms by type of vehicle or generator, and investigate consumption rates outside of these norms.

50. The Representation had a fleet of 400 vehicles with an acquisition cost of approximately \$30 million, with 60 per cent of them (or 241 vehicles) under the custody of partners. From January 2014 to June 2015, the Representation spent \$8.8 million on fuel.

51. The Representation established adequate procedures for the maintenance and repair of vehicles. Log books were generally completed, both by the partners reviewed and the Representation. However, the Representation had not planned for the size of its fleet in line with operational requirements, taking into consideration the effective level of usage of its vehicles and the overall context of transportation in the South Sudan operation. For example, the Vehicle Tracking System reports reviewed for February and March 2015 showed underutilization of vehicles in Juba with usage rates varying from 0 to 65 per cent.

52. The Representation had put in place checks and controls over fuel management, which included the establishment of standard operating procedures over fuel receipt and issuance and stock management, designation of authorized approvers for fuel issuance, and development of monthly fuel quotas to limit

fuel use per vehicle. Logistics partners implemented procedures for receipt and issuance of fuel. Monthly fuel consumption reports were available for vehicles and generators held by the Representation and partners. However, the following remaining weaknesses were detected in connection with fuel management and infrastructure:

- There were gaps in the monitoring of fuel consumption per vehicle/generator, as the fuel consumption reports were not systematically reviewed in Juba, Yambio, Bunj and Jamjang. The Representation had not detected over-consumption for vehicles in the offices visited during the audit and had not further investigated the respective causes.
- Stocks of fuel were not always monitored. For example, fuel tanks in Yambio had a capacity for 24,000 liters, but monthly fuel consumption reports were not available, and readings of fuel stocks were only provided by the partners to Field Office Yambio over the phone upon request or when there was a need to restock.

53. These above weaknesses were due to: a) inadequate procedures for planning of vehicle fleet needs; and b) inconsistent implementation of procedures and instructions for the monitoring of fuel consumption and fuel stocks. As a result, the Representation was exposed to risks related to waste of financial resources spent on fleet and fuel and unavailability of fuel for the delivery of assistance to persons of concern.

**(7) The UNHCR Representation in South Sudan should: (i) develop and implement procedures for planning for its vehicle fleet requirements by ensuring an effective link to the operational needs; and (ii) put in place supervision arrangements to ensure regular monitoring of fuel stocks and consumption, which should include investigating over-consumption of fuel in vehicles and generators.**

*UNHCR accepted recommendation 7 and stated that: (i) the Representation was in the process of reviewing its fleet requirements in the context of the South Sudan operations; and (ii) regular monitoring of fuel stocks and consumptions had been addressed through supervision by a Fleet Manager who was consolidating all reports including those from field offices. Recommendation 7 remains open pending submission of evidence that the planning for vehicle fleet requirements linked to operational needs has been completed and that the average fuel consumption is systematically monitored against standard consumption for all vehicles and generators in all locations.*

#### **IV. ACKNOWLEDGEMENT**

54. OIOS wishes to express its appreciation to the Management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	The UNHCR Representation in South Sudan should establish: (i) a risk-based project monitoring plan; (ii) a multi-functional monitoring team for each project to ensure integrated financial and performance monitoring and systematic assessment of project performance against targets; and (iii) procedures for documenting the follow-up on recommendations contained in monitoring and project audit reports.	Important	O	Submission to OIOS of evidence of the implementation, in all locations, of integrated financial and performance monitoring together with follow-up on recommendations raised in previous monitoring and project audit reports.	30 June 2016
2	The UNHCR Representation in South Sudan should implement controls to ensure that: (i) the needs for procurement by partners are determined as part of the annual procurement planning process; (ii) the decisions to designate procurement to partners are based on an assessment of each partner's capacity to procure and a cost-benefit analysis; and (iii) monitoring of procurement activities of partners systematically involves supply staff.	Important	O	Submission to OIOS of evidence of: (a) the assessment undertaken of each partner's comparative advantage to procure on UNHCR's behalf; and (b) the implementation of systematic monitoring of partner procurement activities with the involvement of staff from the Supply Unit.	30 June 2016
3	The UNHCR Representation in South Sudan should implement procedures for: (i) recording inventory stored in all warehouses; (ii) assigning clear responsibilities for non-food item (NFI) distribution activities; (iii) reconciling NFIs issued and distributed; and (iv) reviewing distribution lists to ensure they are systematically signed by the beneficiaries as evidence of receipt of the NFIs.	Important	O	Submission to OIOS of evidence that inventory all warehouses have been recorded in the inventory system.	30 June 2016

<sup>2</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>3</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by UNHCR in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
4	The UNHCR Representation in South Sudan should develop local procedures and reallocate sufficient resources for monitoring of construction projects to ensure that they are completed on time and at the required standard and that completed buildings and facilities are formally handed over to partners and government authorities.	Important	C	Action completed	Implemented
5	The UNHCR Representation in South Sudan should strengthen its management oversight arrangements over vendor and procurement management by: (i) implementing appropriate vendor registration procedures; (ii) developing comprehensive annual procurement plans; (iii) putting in place procedures to support the extension of contracts based on competitive re-bidding and/or satisfactory vendor performance; (iv) implementing controls to ensure that contracts above \$20,000 are systematically reviewed by the relevant Committee on Contracts; and (v) correctly recording costs related to the construction of office administrative buildings.	Critical	O	Submission to OIOS of: (a) an action plan for completing the vendor vetting and registration procedures for all vendors the Representation is using; and (b) evidence that the Representative in South Sudan has been reminded that exceptions to the authority delegated to the Representation remain with the relevant committees such as in this case the UNHCR Budget Committee and the Headquarters Committee on Contracts.	30 June 2016
6	The UNHCR Representation in South Sudan should develop and implement an action plan that assigns adequate resources and clear responsibilities, including for monitoring by management and oversight by the Local Asset Management Board, to ensure that all assets are physically verified, records are updated and missing items are accounted for.	Critical	O	Submission to OIOS of the updated asset records for both PPEs and STIs, including for the previously unrecorded \$4.8 million worth of PPEs, and evidence of accounting for differences found during the physical verifications.	30 June 2016



## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
7	The UNHCR Representation in South Sudan should: (i) develop and implement procedures for planning for its vehicle fleet requirements by ensuring an effective link to the operational needs; and (ii) put in place supervision arrangements to ensure regular monitoring of fuel stocks and consumption, which should include investigating over-consumption of fuel in vehicles and generators.	Important	O	Submission to OIOS of documentary evidence that the planning for vehicle fleet requirements linked to operational needs has been completed and that the average fuel consumption is systematically monitored against standard consumption for all vehicles and generators in all locations.	31 July 2016

# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Para. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of Responsible Individual	Implementation Date	Client comments <sup>8</sup>
1	<p>The UNHCR Representation in South Sudan should establish:</p> <p>(i) a risk-based monitoring plan;</p> <p>(ii) a multi-functional monitoring team for each Project to ensure integrated financial and performance monitoring and systematic assessment of project performance against targets;</p> <p>(iii) Procedures for documenting the follow up on recommendations contained in monitoring and project audit reports.</p>	Important	Yes	Senior Project Control Officer and Senior Programme Officer	<p>i) 30 June 2016</p> <p>ii) 30 June 2016</p> <p>iii) 30 June 2016</p>	<p>(i) A mechanism for follow-up on performance of Implementing Partners is being carried out.</p> <p>(ii) All offices have been tasked with the responsibility of establishing multi-functional teams to monitor projects that are implemented within their area of operations. The multi-functional team composition for each office has been shared with the Representation.</p> <p>(iii) The Representation ensures that the monthly reports received from the partners are being validated as per the reports emanating from the monitoring visits undertaken at the project implementation sites.</p>
2	The UNHCR Representation in South Sudan should	Important	Yes	i) Senior Programme	(i) 31 March 2016	i) The Supply Unit in coordination with Project

<sup>6</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>7</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>8</sup> Please indicate feasibility and realistic timelines for implementation of the recommendation.

## Management Response

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Para. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of Responsible Individual	Implementation Date	Client comments <sup>8</sup>
	<p>implement controls to ensure that:</p> <p>i) the needs for procurement by partners are determined as part of the annual procurement process;</p> <p>ii) the decisions to designate procurement to partners are based on an assessment of each partner's capacity to procure and a cost-benefit analysis; and</p> <p>iii) Monitoring of procurement activities of partners systematically involves supply staff.</p>			<p>Officer and Senior Supply Officer</p> <p>ii) Senior Programme Officer and Senior Supply Officer</p> <p>iii) Senior Programme Officer and Senior Supply Officer</p>	(ii) June 2016	<p>Control and Programme at the Representation has undertaken the verification of the partner procurement process, this was completed by 31 March 2016.</p> <p>ii) While monitoring of partners' procurement is being done in accordance with the procurement plan, the procurement undertaken by partners will also be cross-checked or verified through the financial verification and performance reports to ensure that there is compliance to recommended procurement procedures and guidance.</p> <p>iii) All financial verification as per the Standard Operating Procedures for financial verification shall be undertaken by Supply staff forming part of the multi-functional team.</p>
3	<p>The UNHCR Representation in South Sudan should implement procedures for:</p> <p>(i) recording inventory stored in all warehouses;</p>	Important	Yes	i) Senior Programme Officer and Senior Supply Officer	implemented	i) Standard operating procedures for the distribution of non-food items (NFI) have been updated and NFI focal points have been identified in each field Office.

## Management Response

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Para. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of Responsible Individual	Implementation Date	Client comments <sup>8</sup>
	<p>(ii) assigning clear responsibilities for non-food item (NFI) distribution activities;</p> <p>(iii) reconciling NFIs issued and distributed;</p> <p>(iv) Reviewing distribution lists to ensure they are systematically signed by the beneficiaries as evidence of receipt of the NFIs.</p>			<p>ii) Senior Programme Officer and Senior Supply Officer</p> <p>iii) Senior Programme Officer and Senior Supply Officer</p> <p>iv) Senior Programme Officer and Senior Supply Officer</p>		<p>ii) and iii) A guidance note on NFI distribution/reporting has been finalized. Monthly reports are submitted by concerned offices since January 2016, which also reflects information received from partners.</p> <p>iv) The review of distribution lists mainly kept at the field offices undertaking the distribution has being institutionalized. As a control measure, the office has put in place a system to obtain thumb-prints or signatures to confirm items are delivered to intended beneficiaries, while a spot-monitoring measure is being piloted for monthly soap distribution for refugees (alongside general food distribution).</p>
4	The UNHCR Representation in South Sudan should develop local procedures and reallocate sufficient resources for monitoring of construction projects to ensure that they are completed on time and at the	Important	Yes	v) Senior Programme Officer and Respective Head of Offices with Construction activities	Implemented	<p>(i) The Representation has allocated resources to ensure timely and effective monitoring of construction activities.</p> <p>A monitoring mechanism has</p>

Management Response

Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Para. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of Responsible Individual	Implementation Date	Client comments <sup>8</sup>
	<p>required standard and that completed buildings and facilities are formally handed over to partners and government authorities.</p>					<p>been developed in each field location while a more standardized system/format is currently being developed at the Representation level. The system will be rolled out by May.</p> <p>The representation is also putting in place a standard certificate to be used upon confirmation / certification of the completion of the construction work.</p> <p>(ii) Construction projects that are carried out in support of the host communities are handed over directly to the local communities or host government upon completion. Construction activities such as schools, community centers, primary health centers etc., that are camp based are handed over by the partner to UNHCR upon completion of such construction.</p>

## Management Response

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Para. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of Responsible Individual	Implementation Date	Client comments <sup>8</sup>
5	<p>The UNHCR Representation in South Sudan should strengthen its management oversight arrangements over vendor and procurement management by:</p> <p>(i)Implementing appropriate vendor registration procedures;</p> <p>(ii)Developing comprehensive annual procurement plans;</p> <p>(iii)Putting in place procedures to support the extension of contracts based on competitive re-bidding and/or satisfactory vendor performance;</p> <p>(iv)Implementing controls to ensure that contracts above \$20,000 are systematically reviewed by the relevant Committee on Contracts; and</p> <p>(v) Correctly recording costs related to the construction of office administrative buildings.</p>	Critical	Yes	<p>i) Senior Supply Officer</p> <p>ii) Senior Supply Officer , Senior Admin Officer and Senior Programme Officer</p> <p>iii) Senior Supply Officer</p> <p>iv) Senior Supply Officer</p> <p>v) Senior Admin Officer and Senior Programme Officer</p>	Implemented	<p>i) The Representation has implemented this recommendation and currently has a functional Vendor Review Committee.</p> <p>ii) The 2016 consolidated procurement plan (based on Needs Assessments) was completed at the end of December 2015.</p> <p>iii) All contract extensions are subject to a satisfactory vendor performance evaluation process, prior to the extension of the contract.</p> <p>iv) A monthly spent analysis has been implemented.</p> <p>v) After careful consideration and consultations with relevant division in headquarters, UNHCR is of the opinion that an adjustment between budget categories from the previous year is not required in this case and therefore requests closure of this recommendation.</p>
6	The UNHCR Representation in South Sudan should develop	Critical	Yes	Senior Supply Officer , Senior	Implemented	The Representation did conduct a country wide

## Management Response

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Para. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of Responsible Individual	Implementation Date	Client comments <sup>8</sup>
	and implement an action plan that assigns adequate resources and clear responsibilities, including for monitoring by management and oversight by the Local Asset Management Board, to ensure that all assets are physically verified, records are updated and missing items are account for.			Admin Officer and Senior Programme Officer		physical verification in 2015 and early 2016. Of the 833 Property Plant and Equipment (PPE) 97% (804) of the items were physically verified and updated in MSRP. The remaining 3% (29 items) are being considered for possible write off.  With regards to serially tracked items (STI), a LAMB meeting was held for disposal of non-exiting STIs that were reflected in the STI database. A total of 1,952 items were recommended for disposal after a country wide verification exercise was conducted.
7	The UNHCR Representation in South Sudan should:  i) develop and implement procedures for planning for its vehicle fleet requirements by ensuring an effective link to the operational needs; and  ii) Put in place supervision arrangements to ensure regular	Important	Yes	i) Senior Supply Officer , Senior Admin Officer and Senior Programme Officer  ii) Senior Supply Officer and Senior Admin	i) July 2016  ii) Implemented and on-Going through established SOP's	i) The Representation is in the process of reviewing its fleet requirements in the context of the South Sudan Operation.  ii) Regular monitoring of fuel stocks and consumptions has been addressed through the supervision by a Fleet Manager who is consolidating all reports including those



## Management Response

## Audit of the operations in South Sudan for the Office of the United Nations High Commissioner for Refugees

Para. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of Responsible Individual	Implementation Date	Client comments <sup>8</sup>
	monitoring of fuel stocks and consumption, which should include investigating over-consumption of fuel in vehicles and generators.			Officer		from field offices.