



INTERNAL AUDIT DIVISION

REPORT 2017/010

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

The Representation needed to address critical control deficiencies in procurement and vendor management, and fleet and fuel management

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Assignment No. AR2016/110/05

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

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the Office of the United Nations High Commissioner for Refugees (UNHCR) operations in Ethiopia. The audit covered the period from 1 January 2014 to 30 April 2016 and included a review of: planning and resource allocation; emergency preparedness and response, including management of funds received from the Central Emergency Response Fund (CERF); partnership management; provision of basic needs and services, including the livelihoods programme, the shelter programme, and distribution of non-food items (NFIs); and supply and asset management, including procurement and vendor management, and fleet and fuel management.

The UNHCR Representation in Ethiopia had implemented effective controls over planning and resource allocation, and had adequate arrangements for emergency preparedness. However, there was a critical need for the Representation to strengthen management supervision and oversight arrangements over procurement and vendor management as well as fleet and fuel management. The Representation also needed to strengthen controls over: use of earmarked funds received from CERF; management of partnerships; implementation of the livelihoods programme; implementation of the shelter programme; and distribution of NFIs.

OIOS made two critical and six important recommendations. To address issues identified in the audit, UNHCR needed to:

- Ensure that results reported on the use of funds received from CERF are supported by baseline project requirements and targets and reliable project implementation reports;
- Review the existing tripartite agreement arrangement with the Government partner to ensure that it does not diminish the Representation's sole responsibilities related to allocation of resources to partners and monitoring of project implementation;
- Strengthen controls over selection and retention of partners, designation of procurement authority to partners, and financial and performance monitoring of project activities;
- Review the feasibility of the current livelihoods programme requirements, develop a country-wide livelihoods strategy and context-specific local strategies, and put in place a robust planning and monitoring framework for livelihoods activities;
- Establish a national shelter strategy and assess the need to allocate staff resources and responsibilities for strengthening coordination and oversight arrangements over the shelter programme;
- Implement appropriate controls over NFI distributions to be able to account for all items issued from warehouses and distributed to beneficiaries;
- Conduct a comprehensive review to address systemic and persistent weaknesses in procurement and vendor management; and review and regularize past transactions made to vendors without valid and authorized contracts (**CRITICAL**); and
- Implement appropriate controls over: determination of vehicle needs; disposal of vehicles; vehicle insurance schemes; and allocation and utilization of vehicles and related fuel and maintenance costs among partners and UNHCR offices in Ethiopia (**CRITICAL**).

UNHCR accepted the recommendations, two of which were partially accepted, and has initiated action to implement them.

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Audit of the operations in Ethiopia 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 Ethiopia for the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. The UNHCR Representation in Ethiopia (hereinafter referred to as ‘the Representation’) started its operations in 1966. As at 31 December 2015, the Representation was assisting 821,700 refugees and asylum seekers, up from 423,821 at the beginning of 2014 due to the emergency situation in South Sudan and inter-ethnic clashes, violence, famine and insecurity in Somalia, Eritrea and Yemen. The Representation’s strategic priority areas for 2014 and 2015 were: (i) basic needs and essential services; (ii) community empowerment and self-reliance; and (iii) child protection, sexual and gender-based violence, and issuance of refugee identity papers and birth certificates. The Ethiopia country programme was implemented within the legal limitations posed by the national legislation to integration of refugees, their employment, and their mobility on the national territory.
3. The Representation was headed by a Representative at the D-2 level, and it had 436 posts. It had a Country Office in Addis Ababa responsible for the overall direction of the country operations. Due to the geographic dispersion and high diversity of the population planning groups, the Representation decentralized, as of 31 December 2015, programme and support activities to five Sub-Offices in Gambella, Shire, Jijiga, Asossa and Melkadida, five Field Offices in Samera, Itang, Pugnido, Tongo and Embamadrie, and 14 Field Units in Bambasi, Sherkole, Dolo Ado, Kobe, Bokolmayo, Sheder, Shemelbi, Jewi, Dimma, Awabare, Kebribeyau, Mekele, Helewe yin and Endabaguna. The five Sub-Offices were established as independent cost centers and exercised a high degree of autonomy in conducting their operations.
4. The Representation had total expenditure of \$143.3 million in 2014 and \$118.6 million in 2015. It increased its dependence on partners to implement its programme of work from 64 per cent in 2014 to 84 per cent of the overall programme expenditure in 2015, despite a decrease in its approved budget by 13 per cent. The Representation worked with 37 partners in 2014 and 41 in 2015.
5. Comments provided by UNHCR are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over UNHCR operations in Ethiopia.
7. This audit was included in the OIOS 2016 risk-based internal audit work plan due to financial and operational risks associated with the size and complexity of the UNHCR operations in Ethiopia.
8. OIOS conducted the audit from April to August 2016. The audit covered the period from 1 January 2014 to 30 April 2016. Based on an activity-level risk assessment, the audit covered higher risk processes and activities pertaining to the operations in Ethiopia, which included: planning and resource allocation; emergency preparedness and response, including management of funds received from the Central Emergency Response Fund (CERF); partnership management; provision of basic needs and services, including the livelihoods programme, the shelter programme, and distribution of non-food items

(NFIs); and supply and asset management, including procurement and vendor management, and fleet and fuel management.

9. The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical reviews of data, including financial data from Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system, and performance data from FOCUS, the UNHCR results based management system; (d) testing of controls using judgmental sampling; (e) visits to the Representation's Country Office in Addis Ababa, Sub-Offices in Gambella, Shire and Melkadida, and the offices of six partners implementing UNHCR projects; and (f) observation of activities and projects implemented in eight refugee settlement areas and one registration centre.

III. OVERALL CONCLUSION

10. The Representation had implemented effective controls over planning and resource allocation, and adequate arrangements for emergency preparedness. However, there was a critical need for the Representation to strengthen management supervision and oversight arrangements over procurement and vendor management as well as fleet and fuel management. The Representation also needed to strengthen controls over: use of earmarked funds received from CERF; management of partnerships; implementation of the livelihoods programme; implementation of the shelter programme; and distribution of NFIs.

IV. AUDIT RESULTS

A. Planning and resource allocation

Controls over preparation, monitoring and reporting of annual operations plans were effective

11. In accordance with established planning procedures and guidelines, the Representation conducted needs assessments to define clearly articulated objectives, outputs and activities for priority protection and programme interventions for its persons of concern, which were coherent and consistent with UNHCR's Global Strategic Priorities. The Representation's operations plans for 2014 and 2015 defined appropriate performance indicators and targets as well as resource requirements for achieving them. The Representation regularly monitored and prepared reports on the implementation of its operations plans. OIOS concluded that the Representation had implemented effective controls over preparation, monitoring and reporting of its annual operations plans.

B. Emergency preparedness and response

Control arrangements over emergency preparedness were adequate

12. To respond to the influx of South Sudanese refugees, the Representation: developed and executed a staff training plan on emergency response in core operational areas; developed a contingency plan; established a task force comprising major stakeholders to coordinate and provide guidance on the implementation of the contingency plan; developed an emergency supply chain strategy to enable it to meet the needs of the persons of concern; and identified and redeployed emergency staff from different offices and partners. OIOS concluded that the Representation had put in place adequate arrangements over emergency preparedness.

The Representation could not substantiate the reported results achieved with the earmarked funds received from the Central Emergency Response Fund

13. CERF supports life-saving activities through quick release of funds for start-up response to a humanitarian crisis and underfunded crises. The CERF regulatory framework requires UNHCR to use resident/humanitarian coordination mechanisms to prioritize resources and submit proposals for funding. UNHCR is also required to monitor and report on programme achievements in a coordinated way at the country level through the Office for the Coordination of Humanitarian Affairs (OCHA) at given timeframes. OCHA places reliance on UNHCR at the country level for substantive verification of performance reports, using its own management control frameworks. UNHCR Programme Manual provides for the use of project documents to track activities implemented under the direct implementation modality.

14. The Representation received \$7.0 million from CERF for multi-sector life-saving activities for registration, protection, health, shelter, NFIs and cash assistance from two rapid responses related to the South Sudanese crisis in 2014 and two underfunded activities for Eritrean and urban Yemeni refugees in 2014 and 2015 respectively. Projects related to funds of \$1.5 out of the \$7.0 million were still under implementation at the time of this audit in May 2016 and had not yet been reported on. The Representation directly implemented projects for 65 per cent of the funding, and the remaining 35 per cent was by indirect implementation (i.e., through partners). The Representation's project submissions to OCHA were generally timely, well designed, in the required format, and aligned with CERF life-saving criteria. The Representation submitted its narrative reports in a timely manner, and financial reports were submitted to OCHA globally through UNHCR headquarters.

15. However, the Representation did not prepare separate project documents for directly implemented CERF funded activities to facilitate project tracking and reporting. Therefore, for these activities, the Representation could not provide evidence to OIOS to substantiate achievements reported to OCHA. This was contrary to the UNHCR Programme Manual that requires the Representation to maintain adequate documentation to serve as a basis for regular progress and financial monitoring to ensure the effective and efficient use of resources.

16. In addition, the Representation was not adequately monitoring project activities implemented by partners, as it did not verify and reconcile narrative and financial reports received from its partners to support the project achievements and results from the partners' use of CERF funding.

17. Inability to effectively monitor and report on the utilization of CERF funds and the achievements to which these contributed may result in an ineffective overall response to the humanitarian crisis and loss of future funding.

(1) The UNHCR Representation in Ethiopia should implement mechanisms to ensure that results reported on the use of funds received from the Central Emergency Response Fund are supported by appropriate baseline project requirements and targets and reliable project implementation reports for both directly implemented activities and those implemented by partners.

UNHCR partially accepted recommendation 1 considering that the Representation had fully and systematically complied with CERF reporting requirements and that the additional reporting recommended by OIOS was not required by CERF. UNHCR also stated that the Representation had ensured that CERF funded projects implemented by partners were adequately monitored and underwent the same performance and financial verification in compliance with UNHCR policies. Recognizing, nevertheless, the global importance of providing more definitive guidance concerning

reporting on direct implementation not limited to Ethiopia, UNHCR was developing guidance which would be issued in 2017 for use in the 2018 detailed planning. Furthermore, UNHCR headquarters provided the Representation with examples from operations that had developed templates for direct implementation reporting, along with a reminder of components of the Programme Manual that relate to direct implementation. The Representation would endeavour to provide evidence on the mechanisms put in place to further strengthen project documentation, performance and financial monitoring of CERF funded activities. Recommendation 1 remains open pending receipt of evidence of the mechanisms implemented to strengthen project documentation and performance and financial monitoring of CERF funded activities in Ethiopia.

C. Partnership management

There was a need to review the tripartite agreement with the Government partner and strengthen management controls over partnerships

18. According to UNHCR Enhanced Framework for Implementing with Partners, the Representation is required to: (i) select or retain the best-fit partners using a transparent and competitive process; (ii) assess the partners' procurement capacity and competitive advantage to procure on UNHCR's behalf before signing the Project Partnership Agreements; and (iii) prepare an annual risk-based monitoring plan and establish a multi-functional monitoring team to conduct performance and financial monitoring of projects implemented by partners in a comprehensive and coordinated manner.

19. OIOS reviewed the procedures the Representation had in place over partnership management and visited six partners to assess the effectiveness of the implementation of those procedures. The review indicated that the Representation selected non-governmental partners for implementing its projects jointly with the Government partner using a tripartite agreement approach. This approach did not allow UNHCR to independently determine that best-fit partners were always selected. The Representation also allowed the Government partner to take a leading role in determining the level of funds allocated to partners and was delegating some of its monitoring responsibilities for those partners' project activities. The Government partner's share of the implementation of programme activities increased to \$34.4 million in 2016, or 29 per cent of the total programme amount outsourced to partners in 2015, up from \$29.0 million or 20 per cent in 2014.

20. Additionally, the Representation did not exercise adequate management commitment to controls established UNHCR-wide for selection and retention of partners, designation of procurement authority to partners and financial and performance monitoring of project activities implemented and reported on by partners. This was illustrated by the following examples:

- The Representation undertook calls for expression of interest for implementation of its projects for 2014 and 2016 without providing for the required minimum period for submission of proposals by the partners that were invited. It also retained all its 2014 partners for the 2015 programme cycle without documenting the evaluation of their performance and without excluding six partners for which the project audit opinion had been qualified by external auditors for two consecutive years. Furthermore, it did not request a waiver when it contracted six additional national partners in 2015 without the issuance of a new call for expression of interest.
- The Representation entrusted procurement in excess of \$100,000 to 36 partners with a cumulative value of \$98.0 million in 2014 and 2015. Of this, \$77.2 million was designated to 29 partners who were not pre-qualified to undertake procurement on behalf of UNHCR. The Representation also did not perform an assessment of the procurement capacity of these partners.

- Review of the monitoring plans prepared and monitoring activities undertaken by the Representation for 2014, 2015 and 2016 indicated that the Representation had not shared monitoring plans with partners and had not assigned adequate resources for their implementation. It therefore fell consistently short on execution of the monitoring plans. The scope of the Representation's monitoring activities in terms of frequency and coverage was also too narrow for the size of the Ethiopia operations. In addition, performance monitoring was highly decentralized and not performed in an organized and coordinated manner, making it difficult for the Representation to align financial implementation with programme implementation across the operations.

21. As a result of the above control weaknesses, the Representation was exposed to the risk of not achieving its intended project objectives and not obtaining value for money from its partnerships.

(2) The UNHCR Assistant High Commissioner (Operations), in collaboration with the Bureau for Africa, the Representation in Ethiopia and the Legal Affairs Service, should review the existing tripartite agreement arrangement to ensure that it does not diminish the Representation's sole responsibilities related to selection of partners, allocation of resources to partners and monitoring of project implementation.

UNHCR partially accepted recommendation 2. The Representation was awaiting the outcome of the corporate decision on this issue, and was fully committed to pursue the resultant corporate decision. Recommendation 2 remains open pending receipt of evidence that UNHCR has reviewed the existing tripartite agreement and revised it as appropriate.

(3) The UNHCR Representation in Ethiopia should put in place a local framework of management control to effectively manage risks associated with selection and retention of partners, designation of procurement authority to partners and financial and performance monitoring of project activities implemented and reported on by partners.

UNHCR accepted recommendation 3 and stated that the Representation would provide to OIOS: (i) evidence to support that the selection and retention of partners and the designation of procurement authority to partners for 2017 was conducted in line with UNHCR requirements; and (ii) a sample of risk-based monitoring plans for 2017 agreed with partners. Recommendation 3 remains open pending receipt of: (i) evidence to support that the selection and retention of partners and the designation of procurement authority to partners for 2017 was conducted in line with UNHCR requirements; and (ii) a sample of risk-based monitoring plans for 2017 agreed with partners.

D. Provision of basic needs and services

The Representation needed to review its livelihoods programme requirements and develop a country-wide livelihoods strategy

22. The UNHCR Operational Guidelines on the Minimum Criteria for Livelihoods Programming prescribe mandatory criteria for programming of livelihoods activities, which include: conducting a socio-economic baseline assessment and a market assessment; developing a multi-year livelihoods strategic plan, including clear criteria for selection of refugees and well defined impact indicators; contracting experienced partners; and monitoring and evaluating the impact of programme outputs.

23. The Representation relied on 18 partners to implement livelihoods activities amounting to \$6.5 million in 2014 and \$7.6 million in 2015. OIOS reviewed documentation for five partners, visited eight camps where livelihoods activities were implemented, and met with beneficiaries who were supported with vocational education, cash grants and start-up kits. The review indicated that:

- Whilst a socio-economic baseline assessment conducted by a partner in the refugee camps in Dolo Ado was finalized in June 2015, at the time of this audit the results of the assessment had not yet been used to improve livelihoods programming. A second baseline assessment report was still in draft; however, it no longer reflected the current situation in the camps.
- An international partner carried out a market assessment for Kule and Tierkidi refugee camps in Gambella; however, this assessment had not been updated to reflect changes in the camps. For example, the outcome of the market assessment was not considered in determining the courses to be offered to refugees by partners in the camps. As a result, in December 2015, the Representation was planning to undertake a market survey under a direct implementation arrangement as it was not satisfied with the assessment conducted.
- The Representation did not have a country-wide livelihoods strategic plan. As at the audit date, there were two livelihood strategies, both for urban livelihoods projects in Addis Ababa and in Melkadida. Although the operating context in Ethiopia was not homogenous and varied across different camps and situations, OIOS was of the opinion that a multi-year country-wide strategy should also be prepared with some common criteria for selection of refugees and impact indicators.
- In November 2015, the Representation invited offers from potential partners to participate in livelihoods projects across various locations. OIOS reviewed the Implementing Partnership Management Committee minutes for the Sub-Offices in Gambella, Shire and Melkadida and noted that all projects were allocated to existing partners. The Representation explained that this was done on advice of the Government and due to lack of adequate partner capacity in the field. However, the Representation had not conducted an institutional mapping to identify new partners.
- The Representation was not systematically monitoring project implementation in Gambella, Shire and Melkadida. For example in Melkadida, only 10 per cent of the planned hectares of land were irrigated for agricultural activities in the Dolo Ado camps by two international partners, although these partners spent 100 per cent of the project budgets. The Representation subsequently removed the two partners from the livelihoods projects; however, no new partners had been selected for the irrigation projects.

24. The above shortcomings resulted as the Representation had not comprehensively reviewed the feasibility of implementing livelihoods programmes within the constraints posed by national legislation to refugee employment and integration in Ethiopia. It had also not established an effective planning and monitoring framework for livelihoods activities. This resulted in the risk of diminishing opportunities for refugees to strengthen their psychological resilience and to reduce their dependence on humanitarian support.

(4) The UNHCR Representation in Ethiopia should: (i) review the feasibility of its livelihoods programme requirements, in light of the existing political and legal context; (ii) based on socio-economic baseline and market assessments, develop a country-wide livelihoods strategy and context-specific local strategies; and (iii) put in place a robust planning and monitoring framework for livelihoods activities.

UNHCR accepted recommendation 4 and stated that a livelihoods expert had recently taken up her functions. The Representation would now ensure that: (i) the feasibility of the livelihoods programme is assessed; (ii) a socio-economic baseline assessment and a market assessment is conducted, on the basis of which a country-wide livelihoods strategy and context-specific local strategies is developed; and (iii) a planning and monitoring framework is put in place. Recommendation 4 remains open pending receipt of evidence that: (i) the feasibility of the livelihoods programme has been assessed; (ii) a socio-economic baseline assessment and a market assessment have been conducted, on the basis of which a country-wide livelihoods strategy and context-specific local strategies have been developed; and (iii) a planning and monitoring framework has been put in place.

There was a need to establish a national shelter strategy and assess the need to allocate staff resources and responsibilities for strengthening coordination and oversight arrangements over the shelter programme

25. The UNHCR Global Strategy on Shelter and Settlement requires the Representation to provide appropriate shelter solutions to persons of concern through: (i) development of a local shelter strategy and standard operating procedures for implementation of the strategy; (ii) deployment of personnel with shelter expertise and provision of capacity building to UNHCR and partner staff involved in shelter activities; and (iii) an effective performance monitoring and reporting system over shelter activities.

26. The Representation constructed and maintained 72,903 shelters during 2014 and 2015, which cost \$32.6 million. OIOS reviewed the available documentation related to monitoring and reporting of shelter activities and found them to have been effectively executed. OIOS also visited eight camps in Gambella, Melkadida and Shire and, on a sample basis, confirmed the existence and completeness of the shelters in those locations. The Representation had initiated the development of a national shelter strategy, but it was still in draft.

27. The Representation did not have a shelter specialist to coordinate and oversee shelter activities across the Ethiopia operations. A shelter expert was deployed to Gambella, which was needed as the shelter programme there was \$26.0 million, or 80 per cent of the Representation's total shelter related expenditure during 2014 and 2015. However, another \$6.6 million was spent elsewhere in the country. Therefore, parallel to the finalization and roll-out of the shelter strategy for Ethiopia, there was a need for the Representation to assess whether staff resources and responsibilities should be assigned for country-wide coordination and oversight of the strategy.

28. These shortcomings came as a result of the lack of enforcement of the requirements of the UNHCR Global Strategy across the Ethiopia operations. As a result, the Representation was at risk of not adequately addressing the longer term shelter needs of the different refugee populations in Ethiopia.

(5) The UNHCR Representation in Ethiopia should: (i) put in place an action plan to finalize the development and roll-out of a national shelter strategy; and (ii) in consultation with the Bureau for Africa and the Shelter and Settlements Section at headquarters, assess the need to allocate staff resources and responsibilities for country-wide coordination and oversight of shelter activities.

UNHCR accepted recommendation 5 and stated that the Senior Regional Shelter Officer conducted a mission to Ethiopia in November 2016. Subsequently, the Shelter Strategy was updated. The Representation was awaiting the input and adoption from the Government and other Sector actors, after which it would: (i) provide the finalized national shelter strategy; and (ii) make an assessment

of the need to allocate staff resources and responsibilities for country-wide coordination and oversight of shelter activities. Recommendation 5 remains open pending receipt of: (i) the finalized national shelter strategy; and (ii) results of an assessment of the need to allocate staff resources and responsibilities for country-wide coordination and oversight of shelter activities.

There was a need to implement a robust monitoring system for distribution of NFIs and reconcile quantities distributed with those issued from warehouses

29. To ensure effective distribution of NFIs to beneficiaries and to manage associated risks, the Representation is required to establish criteria for the selection of beneficiaries; develop distribution plans; undertake regular on-site distribution monitoring and post-distribution monitoring; record actual quantities distributed in an electronic system; and reconcile NFIs distributed against those issued.

30. The Representation issued to the Government partner 11 million NFIs in 2014 and 2015 amounting to \$24.0 million. OIOS review of NFI distribution activities in Gambella, Shire and Melkadida indicated that despite the Representation having issued guidelines on monitoring and reconciliation of NFIs in 2014, there was no documentary evidence to confirm that the Representation adequately monitored and reported on actual NFI distributions, conducted post-distribution monitoring activities, or matched quantities distributed from its warehouses with those issued to the Government partner for distribution. The Sub-Offices visited also did not have records of distribution sheets signed by the beneficiaries.

31. The above shortcomings occurred because the Representation did not implement its 2014 control arrangements for monitoring and reconciliation of NFI distributions. Consequently, the Representation could not obtain assurance that all NFIs had reached the intended beneficiaries. Although no actual complaints of refugees not receiving the items came to OIOS' attention, the systemic lack of monitoring controls, which had been persistent for a number of years, also exposed the Representation to fraud risks.

(6) The UNHCR Representation in Ethiopia should: (i) re-establish appropriate controls over non-food item distributions to account for all items from issuance from warehouses to final distribution to the beneficiaries; and (ii) take all necessary efforts to retroactively reconcile distributed items with those issued from the warehouses in 2014 and 2015.

UNHCR accepted recommendation 6 and stated that the Representation had put in place controls over distribution of NFIs. The Representation would provide evidence to OIOS of: (i) systematic conduct of NFI monitoring, post-distribution monitoring and reconciliations; and (ii) results of the retroactive reconciliations done for the years 2014 and 2015. Recommendation 6 remains open pending receipt of evidence of: (i) systematic conduct of NFI monitoring, post-distribution monitoring and reconciliations; and (ii) results of the retroactive reconciliations done for the years 2014 and 2015.

E. Supply and asset management

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

32. The Representation is required to comply with UNHCR procurement rules and procedures, which include: establishing an effective vendor management system; preparing a purchasing plan; implementing competitive bidding procedures through tendering; and, through the Local Committee on Contracts (LCC)

or the Regional Committee on Contracts, ensuring adequate oversight over procurement activities and management of contracts.

33. The Representation did not hold any Vendor Review Committee (VRC) meetings during the period covered by the audit. This resulted in an inaccurate and unreliable vendor database with 395 duplicate vendors. The procurement plans prepared by the Representation for 2014, 2015 and 2016 were not complete and were not submitted on time. OIOS reviewed the procurement procedures put in place and tested on a sample basis 111 contracts totaling \$46.6 million, representing 77 per cent of the local procurement volume of \$60.6 million during the period from 1 January 2014 to 30 April 2016. The review indicated the following control deficiencies in procurement management:

- The Representation invited less than the minimum recommended number of suppliers to bid for contracts in each of the 111 cases reviewed, and systematically did not comply with the minimum bidding time to be provided to suppliers.
- The Representation entered into 50 extensions of contracts totaling \$27.2 million without re-bidding and without assessing vendor performance.
- The Representation presented to LCC 16 incomplete procurement cases.
- Contracts amounting to \$9.3 million were approved ex post facto, in many cases due to inadequate procurement planning.
- Three consultancy contracts were awarded and extended with a total value of \$158,116 without the required supporting documentation, and LCC did not request to see any supporting documentation before approving those contracts.
- Payments were made without a valid contract and supporting documentation in the case of eight payments totaling \$657,320.
- The Representation made advance payments in 2015 for \$516,214 for fuel contracts without obtaining invoices, without producing receipt notes, and without LCC approval.
- At Sub-Office Gambella, direct purchases of air tickets of over \$60,000 were made using petty cash and without competitive bidding.

34. The Representation had taken steps to regularize unauthorized procurement of goods and services since the second half of 2015 following a recommendation raised by the UNHCR Supply Management and Logistics Service in March 2015. However, the Representation still needed to review and regularize transactions amounting to at least \$23.4 million. Despite the recommendations of the Supply Management and Logistics Service, OIOS observations discussed above showed that the Representation was still not complying with the principle of competitive and transparent procurement.

35. These deficiencies happened because the Representation had not established adequate management supervision and oversight arrangements over procurement and vendor management activities, especially in terms of ensuring that procurement staff and LCC and VRC members were aware of their responsibilities. OIOS had raised significant shortcomings in procurement management already in its audit report on UNHCR operations in Ethiopia in 2009. Therefore, the control deficiencies appeared to be persistent and systemic and required, in the opinion of OIOS, a thorough management review to identify the underlying causes. Otherwise, the Representation would continue to be exposed to an increased risk of financial losses, including through fraud, and not receiving best value for money from its procurement activities.

(7) The UNHCR Representation in Ethiopia, in coordination with the Bureau for Africa and the Supply Management and Logistics Service, should: (i) arrange for a comprehensive, independent review to be conducted to assess the structural, staffing and training requirements needed to address the systemic and persistent weaknesses in procurement

and vendor management; and (ii) develop a plan for completing the ongoing actions to regularize contracts and to review past payments made for goods and services without contracts.

UNHCR accepted recommendation 7 and stated that: (i) the Head of Supply Management and Logistics Service conducted a mission to Ethiopia in September 2016. Following the mission, a staffing plan was proposed and was now being considered at headquarters; and (ii) actions to regularize contracts were being finalized. Recommendation 7 remains open pending receipt of: (i) results and outcome of the comprehensive review of the procurement and vendor management function in Ethiopia; and (ii) evidence of completion of the regularization of contracts and past payments made for goods and services without contracts.

There was a critical need to review and strengthen existing arrangements over fleet and fuel management

36. According to UNHCR Operational Guidelines for the Management and Use of UNHCR Vehicles, the Representation is required to: (i) designate a Fleet Manager for administering the vehicles in the operation and act as counterpart to the Asset and Fleet Management Section at UNHCR headquarters; (ii) conduct physical verification of all vehicles, update the related asset records and account for any differences; (iii) adequately plan for its transport needs and ensure correct use of vehicles; and (iv) put in place procedures to monitor fuel consumption and expenditures and ensure that adequate fuel infrastructure is in place.

37. The Representation had a fleet of 397 vehicles with a net book value of \$5.1 million as of December 2015. It had assigned 215 of those vehicles to partners under Right of Use Agreements. It had decentralized the management of its fleet to Fleet Managers in Sub-Offices, who were also responsible for monitoring fuel consumption and expenditure. The Representation conducted three physical asset verifications in the audit period and updated the asset records accordingly. However, OIOS review of controls over fleet and fuel management identified the following weaknesses:

- The Representation had not performed a documented needs assessment for 2014, 2015 and 2016 to justify the current allocation of vehicles.
- The Representation was not provided access to physically verify and confirm the existence and appropriate use of 78 UNHCR vehicles, with a net book value of 1.6 million, provided to the Government partner, even though the Representation continued to allocate funds for operating these vehicles.
- The Representation retained 108 vehicles that were fully depreciated, 8 of which had been grounded for more than two years. It had not put in place an action plan to dispose of them.
- Despite the fleet being comprehensively insured with the Asset and Fleet Management Section, the Representation had also re-insured all its vehicles comprehensively at an additional cost of \$244,877 in 2014 and 2015, instead of only taking third party insurance.
- The Sub-Office in Melkadida paid \$10,668 for 12,405 litres of diesel which were never received. The Sub-Office in Gambella paid \$298,725 for 354,893 litres of diesel and kerosene without a goods received note and without regularly calibrating the tank to obtain accurate measure of quantity of fuel received. There was no mechanism in place to monitor partners' consumption of fuel or to establish their fuel needs vis-à-vis the operational requirements identified in the respective project agreements.
- The Representation did not have evidence to verify whether partner expenditure on vehicle maintenance for \$9.8 million in 2014 and 2015, or \$22,750 per vehicle per year, was reasonable and used exclusively for the vehicles provided by UNHCR under Right of Use Agreements.

38. The cited control deficiencies resulted as the Representation did not exercise adequate centralized management supervision over fleet and fuel management at the Country Office level. Although the Representation stated that it was facing challenges with regard to management of the fleet under the control of the Government partner, which it had communicated to the Asset and Fleet Management Section, it had not put in place adequate arrangements to ensure systematic data collection and analysis to determine transportation needs and to make informed decisions on fleet, fuel and maintenance cost allocation among partners and UNHCR offices vis-à-vis the approved programme of work.

(8) The UNHCR Representation in Ethiopia, in coordination with the Bureau for Africa and the Asset and Fleet Management Section, should review the arrangements over fleet and fuel management in Ethiopia to ensure implementation of appropriate controls over determination of vehicle needs, disposal of vehicles, vehicle insurance schemes, and allocation and utilization of vehicles and fuel and maintenance costs among partners and UNHCR offices.

UNHCR accepted recommendation 8 and stated that the Representation had engaged a fleet management expert and would provide a status report evidencing a concrete and time-bound action plan once a detailed review had been conducted. The review would cover strengthening controls over fleet and fuel management, including: (i) determination of vehicle needs; (ii) disposal of vehicles; (iii) vehicle insurance schemes; and (iv) allocation and utilization of vehicles and related fuel and maintenance costs among partners and UNHCR offices. Recommendation 8 remains open pending receipt of evidence of controls implemented over: (i) determination of vehicle needs; (ii) disposal of vehicles; (iii) vehicle insurance schemes; and (iv) allocation and utilization of vehicles and related fuel and maintenance costs among partners and UNHCR offices in Ethiopia.

V. ACKNOWLEDGEMENT

39. 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 Ethiopia for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Ethiopia should implement mechanisms to ensure that results reported on the use of funds received from the Central Emergency Response Fund are supported by appropriate baseline project requirements and targets and reliable project implementation reports for both directly implemented activities and those implemented by partners.	Important	O	Submission to OIOS of evidence of the mechanisms implemented to strengthen project documentation and performance and financial monitoring of CERF funded activities.	31 March 2017
2	The UNHCR Assistant High Commissioner (Operations), in collaboration with the Bureau for Africa, the Representation in Ethiopia and the Legal Affairs Service, should review the existing tripartite agreement arrangement to ensure that it does not diminish the Representation's sole responsibilities related to selection of partners, allocation of resources to partners and monitoring of project implementation.	Important	O	Submission to OIOS of evidence that UNHCR has reviewed the existing tripartite agreement and revised it as appropriate.	31 December 2017
3	The UNHCR Representation in Ethiopia should put in place a local framework of management control to effectively manage risks associated with selection and retention of partners, designation of procurement authority to partners and financial and performance monitoring of project activities implemented and reported on by partners.	Important	O	Submission to OIOS of: (i) evidence to support that the selection and retention of partners and the designation of procurement authority to partners for 2017 was conducted in line with UNHCR requirements; and (ii) a sample of risk-based monitoring plans for 2017 agreed with partners.	30 April 2017
4	The UNHCR Representation in Ethiopia should: (i) review the feasibility of its livelihoods programme	Important	O	Submission to OIOS of evidence that: (i) the feasibility of the livelihoods programme has	31 October 2017

¹ 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.

² 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.

³ C = closed, O = open

⁴ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

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

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	requirements, in light of the existing political and legal context; (ii) based on socio-economic baseline and market assessments, develop a country-wide livelihoods strategy and context-specific local strategies; and (iii) put in place a robust planning and monitoring framework for livelihoods activities.			been assessed; (ii) a socio-economic baseline assessment and a market assessment have been conducted, on the basis of which a country-wide livelihoods strategy and context-specific local strategies have been developed; and (iii) a planning and monitoring framework has been put in place.	
5	The UNHCR Representation in Ethiopia should: (i) put in place an action plan to finalize the development and roll-out of a national shelter strategy; and (ii) in consultation with the Bureau for Africa and the Shelter and Settlements Section at headquarters, assess the need to allocate staff resources and responsibilities for country-wide coordination and oversight of shelter activities.	Important	O	Submission to OIOS of: (i) the finalized national shelter strategy; and (ii) results of an assessment of the need to allocate staff resources and responsibilities for country-wide coordination and oversight of shelter activities.	30 April 2017
6	The UNHCR Representation in Ethiopia should: (i) re-establish appropriate controls over non-food item distributions to account for all items from issuance from warehouses to final distribution to the beneficiaries; and (ii) take all necessary efforts to retroactively reconcile distributed items with those issued from the warehouses in 2014 and 2015.	Important	O	Submission to OIOS of evidence of: (i) systematic conduct of NFI monitoring, post-distribution monitoring and reconciliations; and (ii) results of the retroactive reconciliations done for the years 2014 and 2015.	30 April 2017
7	The UNHCR Representation in Ethiopia, in coordination with the Bureau for Africa and the Supply Management and Logistics Service, should: (i) arrange for a comprehensive, independent review to be conducted to assess the structural, staffing and training requirements needed to address the systemic and persistent weaknesses in procurement and vendor management; and (ii) develop a plan for completing the ongoing actions to regularize contracts and to review past payments	Critical	O	Submission to OIOS of: (i) results and outcome of the comprehensive review of the procurement and vendor management function in Ethiopia; and (ii) evidence of completion of the regularization of contracts and past payments made for goods and services without contracts.	30 April 2017

STATUS OF AUDIT RECOMMENDATIONS

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

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
8	made for goods and services without contracts. The UNHCR Representation in Ethiopia, in coordination with the Bureau for Africa and the Asset and Fleet Management Section, should review the arrangements over fleet and fuel management in Ethiopia to ensure implementation of appropriate controls over determination of vehicle needs, disposal of vehicles, vehicle insurance schemes, and allocation and utilization of vehicles and fuel and maintenance costs among partners and UNHCR offices.	Critical	O	Submission to OIOS of evidence of controls implemented over: (i) determination of vehicle needs; (ii) disposal of vehicles; (iii) vehicle insurance schemes; and (iv) allocation and utilization of vehicles and related fuel and maintenance costs among partners and UNHCR offices in Ethiopia.	30 April 2017

APPENDIX I

Management Response

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Ethiopia should implement mechanisms to ensure that results reported on the use of funds received from the Central Emergency Response Fund are supported by appropriate baseline project requirements and targets and reliable project implementation reports for both directly implemented activities and those implemented by partners.	Important	Partially	UNHCR Representation in Ethiopia (Snr. Program Officer)	March 2017	<p>UNHCR partially accepted this recommendation considering that the Representation had fully and systematically complied with CERF reporting requirements and that the additional reporting recommended by OIOS is not required by CERF.</p> <p>In response to paragraph 16 of the report, the Representation also ensures that CERF funded projects implemented by partners are adequately monitored and undergo the same performance and financial verification in compliance with UNHCR policies</p> <p>Recognizing, nevertheless, the global importance of providing more definitive guidance concerning reporting on direct implementation not limited to Ethiopia, UNHCR is currently developing guidance which will be issued in 2017 for use in 2018 detailed planning.</p> <p>Furthermore, Headquarters provided the Representation with examples from operations that have developed templates for direct implementation reporting, along</p>

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² 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.

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						with a reminder of components of the Programme Manual that relate to direct implementation (namely sections 4.5.2 and 5.7.2). The Representation will endeavor to provide evidence on the mechanisms put in place to further strengthen project documentation, performance and financial monitoring of CERF funded activities.
2	The UNHCR Assistant High Commissioner (Operations), in collaboration with the Bureau for Africa, the Representation in Ethiopia and the Legal Affairs Service, should review the existing tripartite agreement arrangement to ensure that it does not diminish the Representation's sole responsibilities related to selection of partners, allocation of resources to partners and monitoring of project implementation.	Important	Partially	Asst. High Commissioner (Operations) in collaboration with the Bureau for Africa	December 2017	The Representation took note of the recommendation and awaits the outcome of the corporate decision and is fully committed to pursue the resultant corporate decision.
3	The UNHCR Representation in Ethiopia should put in place a local framework of management control to effectively manage risks associated with selection and retention of partners, designation of procurement authority to partners and financial and performance monitoring of project activities implemented and reported on by partners.	Important	Yes	UNHCR Representation in Ethiopia (Snr. Program Officer, Snr. Supply Officer & Snr Project Control Officer)	April 2017	The Representation will provide (i) evidence to support that the selection and retention of partners and the designation of procurement authority to partners for 2017 was conducted in line with UNHCR requirements; and (ii) a sample of risk-based monitoring plans for 2017 agreed with partners.
4	The UNHCR Representation in Ethiopia	Important	Yes	UNHCR	October 2017	A Livelihoods expert has recently taken-

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	should: (i) review the feasibility of its livelihoods programme requirements, in light of the existing political and legal context; (ii) based on socio-economic baseline and market assessments, develop a country-wide livelihoods strategy and context-specific local strategies; and (iii) put in place a robust planning and monitoring framework for livelihoods activities.			Representation in Ethiopia (Snr. Program Officer)		up her functions as of 27 February 2017. The Representation will now ensure that: (i) the feasibility of the livelihoods programme has been assessed; (ii) a socio-economic baseline assessment and a market assessment have been conducted, on the basis of which a country-wide livelihoods strategy and context-specific local strategies have been developed; and (iii) a planning and monitoring framework has been put in place.
5	The UNHCR Representation in Ethiopia should: (i) put in place an action plan to finalize the development and roll-out of a national shelter strategy; and (ii) in consultation with the Bureau for Africa and the Shelter and Settlements Section at headquarters, assess the need to allocate staff resources and responsibilities for country-wide coordination and oversight of shelter activities.	Important	Yes	UNHCR Representation in Ethiopia (Deputy Representative)	April 2017	The Snr. Regional Shelter Officer conducted a mission to Ethiopia in November 2016. Subsequently the Shelter strategy was updated. It awaits the input and adoption from the Government and other Sector actors. Subsequent to this stage, the Representation will (i) provide the finalized national shelter strategy; and (ii) an assessment of the need to allocate staff resources and responsibilities for country-wide coordination and oversight of shelter activities.
6	The UNHCR Representation in Ethiopia should: (i) re-establish appropriate controls over non-food item distributions to account for all items from issuance from warehouses to final distribution to the beneficiaries; and (ii) take all necessary efforts to retroactively	Important	Yes	UNHCR Representation in Ethiopia (Heads of Sub Offices, Snr. Program Officer & Snr. Supply Officer)	April 2017	The Representation has put in place the controls over distribution of non-food items and shared these with OIOS. The Representation will provide evidence of: (i) systematic conduct of NFI monitoring, post-distribution monitoring and reconciliations; and (ii) results of the

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	reconcile distributed items with those issued from the warehouses in 2014 and 2015.					retroactive reconciliations done for the years 2014 and 2015.
7	The UNHCR Representation in Ethiopia, in coordination with the Bureau for Africa and the Supply Management and Logistics Service, should: (i) arrange for a comprehensive, independent review to be conducted to assess the structural, staffing and training requirements needed to address the systemic and persistent weaknesses in procurement and vendor management; and (ii) develop a plan for completing the ongoing actions to regularize contracts and to review past payments made for goods and services without contracts.	Critical	Yes	UNHCR Representation in Ethiopia (Snr. Supply Officer)	April 2017	(i) The Head of SMLS conducted a mission to Ethiopia in September 2016. Following the mission a staffing plan was proposed and is now being considered at Headquarters. (ii) Actions to regularize contracts are being finalized.
8	The UNHCR Representation in Ethiopia, in coordination with the Bureau for Africa and the Asset and Fleet Management Section, should review the arrangements over fleet and fuel management in Ethiopia to ensure implementation of appropriate controls over determination of vehicle needs, disposal of vehicles, vehicle insurance schemes, and allocation and utilization of vehicles and fuel and maintenance costs among partners and UNHCR offices.	Critical	Yes	UNHCR Representation in Ethiopia (Snr. Supply Officer)	April 2017	The operation has engaged a Fleet Management expert and will provide a status report evidencing a concrete and time-bound action plan once a detailed review has been conducted. The review will cover strengthening controls over fleet and fuel management, including: (i) determination of vehicle needs; (ii) disposal of vehicles; (iii) vehicle insurance schemes; and (iv) allocation and utilization of vehicles and related fuel and maintenance costs among partners and UNHCR offices.