



INTERNAL AUDIT DIVISION

REPORT 2024/100

Audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees

There was a critical need to reinforce the Representation's selection, management and monitoring of implementing partners' delivery of funded programmes in a timely and cost-effective manner

30 December 2024

Assignment No. AR2023-112-02

Audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees (UNHCR). The objective of the audit was to assess whether the Representation was managing the delivery of services to forcibly displaced and stateless people through funded partners in a timely, efficient and cost-effective manner and in compliance with UNHCR's policy requirements. The audit covered the period from January 2022 to December 2023.

In an environment characterized by conflicts in the northern regions, the declaration of a state of emergency, and continuous displacements of persons, the UNHCR Representation in Ethiopia heavily relied on partners to implement programme activities. However, there were significant systemic weaknesses in the control environment, which were already identified in the 2009 OIOS audit of the Representation but largely remained unresolved. These weaknesses negatively impacted the Representation's delivery of quality services to beneficiaries in a timely, efficient and cost-effective manner and resulted in anomalies that were indicative of fraud.

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

- Conduct a comprehensive assessment to inform its decisions on the most cost-effective arrangements for implementing programme activities and the optimal number of partners needed to deliver services to forcibly displaced persons.
- Address the delays in the completion of Partnership Framework Agreements.
- Reassess partners' capacity to undertake fiduciary responsibilities in accordance with UNHCR rules and review unsupported and ineligible transactions with a view to making recoveries if warranted. **(Critical recommendation)**
- Assure that best value for procurement is obtained by: (i) conducting comparative advantage assessments to inform its decisions on optimal procurement arrangements; (ii) reassessing partners' capacity to procure on its behalf; and (iii) reviewing irregular procurement activities noted by the audit with a view to making recoveries if warranted. **(Critical recommendation)**
- Reinforce its monitoring of partners by: (i) reviewing the terms of reference, composition and capacity of the programme unit that manages partners, and multi-functional teams (including project control) to improve their performance and strengthen accountability in programme implementation; (ii) conducting risk-based monitoring of partners; and (iii) strengthening external audit arrangements in place.

UNHCR accepted all recommendations and has initiated action to implement them. Actions required to close the recommendations are indicated in Annex I.

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Audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees (UNHCR).

2. The UNHCR Representation in Ethiopia (hereinafter referred to as ‘the Representation’) commenced its operations in 1969 to support the Government of Ethiopia in providing protection and assistance to forcibly displaced persons in the country. Ethiopia is a state party to the 1951 Convention relating to the status of refugees and its 1967 Protocol as well as to the 1969 Organization of African Union Convention. Ethiopia is also a signatory to the 2009 African Union Convention for the protection and assistance of internally displaced persons (IDPs) in Africa but was yet to domesticate it. Further, Ethiopia was yet to ratify the 1954 and 1961 Conventions relating to the stateless persons.

3. As the third largest refugee hosting country in Africa, Ethiopia was home to 947,090 refugees and 6,574 asylum seekers. The refugees were predominantly from South Sudan (44 per cent), Somalia (32 per cent) and Eritrea (18 per cent). As of 30 June 2023, Ethiopia also had a population of 4.4 million IDPs and 3.2 million IDP returnees that had been displaced due to multiple instances of conflict and drought in the Somali, Tigray, Amhara, Afar and Oromia regional states. UNHCR declared a Level 2 emergency in 2022 to respond to increased internal displacements due to drought and a regional emergency in 2023 in response to influxes from Sudan. In 2023 alone, Ethiopia received 143,029 refugees up from the 47,136 received in 2021 and 2022.

4. The Representation was headed by a Representative at the D-2 level who reported to the Director of the Regional Bureau of the East and Horn of Africa and Great Lakes region. The Representative was assisted by three staff at D-1 level. As of 20 November 2023, there were 837 staff positions, including 498 regular staff positions, 172 temporary positions and 167 affiliated workforce positions. The Representation had a 20 per cent vacancy rate at the time of the audit.

5. As of October 2023, there were 32 UNHCR offices in Ethiopia, which included two representations: (i) UNHCR’s country Representation; and (ii) from 2009, the Representation to the African Union and Economic Commission for Africa. The Representation had six sub-offices at Melkadida, Gambella, Shire, Jijiga, Mekelle and Assosa, eight field offices and 16 field units.

6. The Representation’s budgets for 2022 and 2023 were \$183 and \$152 million, respectively. It implemented activities valued at \$81 and 56 million through 42 and 43 UNHCR funded partners in 2022 and 2023 respectively, as shown in Table 1 below.

Table 1: Budget and number of Partnership Framework Agreements (PFAs) for 2022 and 2023¹

Outcome area	2022		2023	
	Budget (\$)	Number of PFAs	Budget (\$)	Number of PFAs
Sustainable Housing Settlement	15,187,435	7	7,957,211	4
Well-Being and Basic Needs	14,701,274	14	11,343,954	14

¹ The 42 and 43 partners signed 89 and 73 PFAs in 2022 and 2023 respectively. Some partners were covering more than one outcome area.

Outcome area	2022		2023	
	Budget (\$)	Number of PFAs	Budget (\$)	Number of PFAs
Healthy Lives	13,251,226	8	6,849,311	6
Education	10,548,486	7	7,256,451	6
Clean Water, Sanitation & Hygiene	9,681,451	7	7,075,285	6
Child Protection	3,680,848	6	2,532,759	5
Community / Women Empowerment	3,032,914	10	3,265,030	7
Gender-based Violence	2,967,318	8	2,346,594	6
Self-Reliance / Livelihoods	1,930,514	4	1,921,400	
Safety and Access to Justice	1,904,843	11	1,717,476	14
Access / Documentation	1,860,347	2	3,414,900	2
Protection Policy and Law	977,776	4	151,072	2
Status Determination	913,796	1	420,996	1
Total	80,638,227		56,252,440	

Source of the data is the COMPASS system

7. UNHCR relies on its corporate systems for managing its operations. These systems include: (a) Workday for human resources; (b) COMPASS, for strategic planning, budgeting, monitoring, and reporting; (c) Managing for Systems, Resources and People (MSRP) and Cloud ERP, for financial reporting and supply chain management; and (d) ProGres, UNHCR’s corporate registration, identity and case management system. OIOS obtained and reviewed data from these systems for completeness and accuracy and assessed the effectiveness of controls.

8. Comments provided by UNHCR are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to assess whether the Representation was managing the delivery of services to forcibly displaced and stateless people through funded partners in a timely, efficient and cost-effective manner and in compliance with UNHCR’s policy requirements.

10. This audit was included in the 2024 risk-based work plan of OIOS due to the risks associated with managing an operation in a challenging operational context characterized by multiple emergencies.

11. OIOS conducted this audit from February 2024 to July 2024 in the Representation’s country office Addis Ababa, and sub offices in Gambella, Mekelle and Gondar. The audit covered the period from 1 January 2022 to 31 December 2023. Based on an activity-level risk assessment, the audit covered the high-risk of partnership management in the Ethiopia Representation, in the areas of: (a) partnership implementation arrangements; (b) financial controls; (c) procurement and contracts management; and (d) monitoring of funded partnerships.

12. The audit methodology included: (a) interviews with key personnel at UNHCR and selected partners; (b) review of relevant documentation; (c) analytical review of data, including financial data from UNHCR enterprise resource planning system and performance data from UNHCR results-based management system; (d) sample testing of controls at the partners and UNHCR; (e) visits to the selected funded partner offices in Addis Ababa; and (f) third party verification of vendors.

13. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Partnership implementation arrangements

Need to determine the most cost-effective way of implementing programmes

14. The Representation did not conduct a comparative advantage assessment to inform its decision on whether to directly implement programmes or delegate this to partners. Such an assessment is required by the Programme Handbook for Partners for the determination of best-fit implementation modalities. The Representation's Implementing Partnership Management Committee (IPMC) also did not conduct a comprehensive assessment to determine the optimal number of partners needed to deliver services to forcibly displaced persons. It increased the number of implementing partners from 42 to 43 at a time when programme funding was decreasing, without proper justification for the increase.

(1) The UNHCR Representation in Ethiopia should conduct a comprehensive assessment to inform its decisions on the most cost-effective arrangements of implementing programme activities and the optimal number of partners needed to deliver services to forcibly displaced persons.

UNHCR accepted recommendation 1 and stated that the Representation in October 2024 conducted a comprehensive assessment to determine the most appropriate modality for delivering results. The IPMC also met in December 2024 and reduced the number of partners from 48 in 2024 to 36 in 2025.

Need to ensure the timely completion of PFAs and disbursement of funds to partners

15. A review of 50 PFAs signed during the audit period revealed that none were finalized in the year preceding their implementation, as required. Instead, 75 percent of PFAs were signed 2-4 months, and 25 percent 6-11 months, after the start of the implementation period. The Representation attributed these delays to the tripartite signing of agreements (Government, UNHCR and partners), UNHCR system changes, and changes of partners in two major sectors (health and education). The delays affected the timely disbursement of funds and implementation of programmes by partners.

16. Because partners received their final instalment between December of the implementation year and February of the following year, most of the expenditures were concentrated in the final week of the year and into the liquidation period. For example, the partner implementing education and gender-based violence (GBV) programmes processed most expenses on the last day of the year as a result of the delayed disbursement of funds. This practice compromised adherence to financial controls, as is noted in sections B and C of this report, and negatively impacted partners' ability to achieve best value on transactions.

17. To mitigate the negative effects of delays in signing PFAs, the Representation signed Letters of Authorization (LOAs) that granted partners the authority to start programme implementation with their own funds as they waited for PFAs to be finalized. While this proactive approach was commendable, it also posed risks by committing the Representation to activities and costs that it may not normally support. For example:

- After the declaration of the L3 emergency in 2023, the Representation issued 22 LOAs totaling \$5.8 million to facilitate the response. However, cuts in UNHCR's funding to the Representation communicated in October 2023 impacted its ability to meet these obligations. Thus, at the end of 2023, UNHCR owed partners some \$4.2 million, which was included in the 2024 PFAs and budgets.

- The outstanding 2023 LOA obligations were still pending at the time of the audit since the PFAs were only signed between April and May 2024. This reduced the available funding for programme implementation in 2024 and affected partners' ability to meet their obligations in a timely manner. For instance, the vendor that provided wet feeding to displaced persons totaling \$1.2 million wanted to take legal action against the responsible partner due to delayed payments.

18. Issues related to delayed signature of PFAs were raised in the OIOS 2020 audit of the Representation, and their re-occurrence indicates that mitigating controls were not sustained. This impacted the timely disbursement of funds, with most expenditures concentrated in the final week of the year and into the liquidation period, resulting in increased non-compliance with policies. If unaddressed, these issues not only impact the timely implementation of programme activities, but also may expose UNHCR to reputational risk.

(2) The UNHCR Representation in Ethiopia should urgently address delays in completing the Partnership Framework Agreements.

UNHCR accepted recommendation 2 and stated that the Representation was developing standard operating procedures to clarify the roles and responsibilities of the different parties (UNHCR Refugees and Returnees Service, and partners), and to address the underlying causes for the delays in the timely finalization of the framework agreements.

Need for a specific strategy for direct engagement with the Government Partner

19. The Government Partner was responsible for coordinating all government matters related to refugees. The Government Partner had a funded budget of \$33.1 million (24 per cent of the overall partnership budget) and this made it the largest funded partner in the period under audit. The Representation through its advocacy was able to transition the Government Partner's role to its core mandate areas of registration, coordination and refugee status determination. It also moved the implementation of the health and education programmes, two key programme areas, from the Government Partner and entrusted them to other funded partners. Also, as available funding decreased, the Representation reduced the Government Partner's budget from \$18.5 million in 2022 to \$10 million in 2024. Despite these actions, the Government Partner remained the largest funded partner, and the Representation continued to meet most of its costs, which were primarily related to its headquarters staff salaries and administrative costs. OIOS also found that the Government Partner continued to face programme performance challenges (this was noted in previous OIOS audit reports 2020/036 and 2017/010).

20. One of the recommendations from the 2024 OIOS audit of the management of funded partnerships with government entities (AR2022-168-01) was for the UNHCR Assistant High Commissioner (Operations), in collaboration with the Division of Strategic Planning and Results, to support operations with critical government relations and develop country level strategic plans on the engagement and management of government partners. This recommendation is applicable to the Representation considering that Ethiopia is one of leading hosts of forcibly displaced persons and effective government relations are critical for it to achieve its mandate in the country.

B. Partner financial controls

Critical need to reinforce financial discipline in partners' use of programme funds

- (a) Use of unauthorized bank accounts and unreconciled discrepancies identified between the ledger and corresponding bank transactions

21. Contrary to UNHCR Administrative Instruction on Procedures on Partnership Management, the housing and settlements partner did not use the authorized bank accounts specified in the signed PFAs. Of notable concern was one unauthorized bank account that was frequently used to make large payments to the vendors, most of which could not be verified and for which bank statements were not provided. The maintenance of bank accounts outside of those authorized meant that transactions were outside the Representation's purview, and this resulted in possible fraud going undetected.

22. From the review of a sample of transactions undertaken by the housing and settlements partner, the audit identified irregular transactions totaling \$276,363 (ETB 15,200,000)². This arose from the partner's using one banking transaction or payment for making multiple entries in the general ledger. The partner, when reporting to UNHCR, used the overstated general ledger balances, which provided a false impression that the funding provided had been depleted while, in fact, there was still money held in its bank accounts. The audit requested for but was not provided with bank reconciliations concerning these transactions.

- (b) Multiple instances of unsupported, ineligible or uneconomical expenditures

23. The audit identified numerous expenditures incurred by partners that were unsupported, ineligible, or uneconomical, as summarized in table 2 below.

Table 2: Unsupported, ineligible and uneconomical expenditures

Partner	Unsupported \$ 000s	Ineligible \$ 000s	Uneconomical \$ 000s
Government partner	230	6,900	100
Shelter and settlements partner	1,100	-	-
Health partner			15
Education and GBV partner		80	62

- (i) Ineligible costs unrelated to programme activities, not budgeted for, or non-compliant with UNHCR policies:
- Included in the staff costs of the Government partner were items totaling \$6.1 million that were unrelated to programme activities. For example, payments were made for loading and distributing non-food items, which was not a funded project activity. The Government partner also paid three staff travel allowances for 10 days for a five-day activity, resulting in overpayment of \$11,672.
 - The Government partner and the education and GBV partner spent \$856,971 above the approved staff lump sum costs on medical expenses, life insurance, staff shuttle, and severance pay.

² All transactions in ETB have been translated to dollars at an exchange rate, i.e., \$1=ETB 55

- (ii) There was expenditure that were not properly justified or supported with third party documentation. In some instances, the costs were explained by internally generated documents such as purchase requisitions, orders and goods received notes. For instance:
- The shelter and settlements partner refused to provide documentation related to expenditure incurred in 2022 totaling \$1.1 million.
 - The Government Partner incurred costs (primarily for procurement of goods) totaling \$230,970, that were not supported with third party documentation.
 - The partner for education purchased and distributed school items and also paid students a monthly stipend but there were no signatures by beneficiaries evidencing that they received items and cash assistance. In some cases, one person signed for all the beneficiaries.
- (iii) OIOS also observed several expenditures that did not provide optimal value to the resources invested. For instance:
- All the partners reviewed purchased laptops outside the framework agreement and at higher prices.
 - The health partner purchased medicines outside the framework agreement at costs that were 70 per cent higher than headquarters costs.

24. The extent of the issues above indicated critical gaps in the Representation's due diligence prior to contracting with partners, as well as inadequate and ineffective monitoring by its project control. If unaddressed, the Representation will continue to lose funds, which carries the risk of reputational damage to UNHCR.

(3) The UNHCR Representation in Ethiopia should: (i) reassess partners' capacity to undertake fiduciary responsibilities in accordance with UNHCR rules; and (ii) review unsupported and ineligible transactions and take appropriate action including recoveries and referral to the Inspector General, if warranted. (Critical)

UNHCR accepted recommendation 3 and stated that the Representation was already taking action to mitigate associated risks. Internal control questionnaires and assessments have been completed prior to signing partnership agreements. Mitigation measures such as financial and project performance verifications; training for partners; regular monitoring and evaluation; and support and guidance will be provided routinely to partners by Programme Management and Project Control staff. The Representation is also reviewing the ineligible transactions, and some recoveries have been made.

C. Partner procurement and contracts management

Critical need to reinforce current procurement arrangements so best value is obtained

25. The Representation designated procurement³ to funded partners totaling \$56.3 million and \$33.8 million for 2022 and 2023, respectively. UNHCR evaluated and pre-qualified implementing partners based on their procurement procedures and expertise to conduct procurement on behalf of UNHCR.

³ Designating funded partners to procure using UNHCR funds where they are proven to have procurement comparative advantage.

(a) Need for a comparative advantage assessment

26. The Representation was required to, but did not, conduct a comparative advantage assessment to inform its decisions to designate procurement to partners. One area where the Representation had a clear comparative advantage in procurement was its value added tax (VAT) exemption privilege. The lack of tax exemption for partners that purchased goods and services from vendors that were not VAT registered or that did not provide the relevant remittance documents, weakened the Representation's position in requesting and receiving tax refunds. The Representation stated that it has undertaken measures through the Government Partner and other channels to recover the VAT refunds. However, it was unable to recover VAT totaling \$11.7 million from partner procurement conducted in the period under audit. One partner alone had an outstanding VAT refund totaling \$1.8 million arising from its procurement of construction materials.

(b) Need to address significant irregularities

27. The partners were required to comply with UNHCR policies and guidelines, with a particular emphasis on transparency, fairness, and accountability in all procurement activities. OIOS reviewed the procurement activities conducted by four partners totalling \$8.93 million as shown in table 3 below and identified significant irregularities.

Table 3: Sampled partner procurements

Partner	Implementation areas	Sampled Procurement Amount \$ millions
Partner A	Coordination	5.20
Partner B	Shelter and settlements	0.29
Partner C	Health	0.48
Partner D	Education and GBV	2.96
Total		8.93

28. **Authenticity of purchases questioned:**

- The audit conducted third party vendor verifications and could not locate 12 out of 30 vendors sampled. The vendors that could be reached either: (i) terminated the call after OIOS requested to visit their establishments; (ii) stated that they were unfamiliar with the shelter partner; and/or (iii) stated that they did not quote for the items as they do not deal in construction materials; in this group was the supposed supplier of eucalyptus poles for a total cost of \$2 million between 2022 and 2023.
- Payments were often made to individuals rather than companies, which had implications for compliance with tax laws.
- One vendor requested that payments totaling \$143,636 (ETB 7.9 million) are made to another vendor, both of whom were untraceable during the verification exercise.
- Payments totaling \$159,089 (ETB 8.75 million) and deliveries (e.g., of water tanks) were made prior to the completion of the required procurement processes.
- Procurement documents for \$87,273 (ETB 4.8 million) had identical dates for bid requests and committee minutes, indicating a lack of transparency in the selection process.

29. **Lack of transparency in procurement process:**

- The shelter partner procured construction materials totaling \$11.7 million primarily from four vendors without conducting public tendering. It did not maintain a database of pre-qualified vendors and thus lacked documentation to evidence how the vendors invited to bid were identified. This impacted the partner's ability to reach a broader pool of suppliers, with the same vendors repeatedly invited to bid and selected.
- Purchases of construction materials totaling \$31,837 (ETB 1,751,049) and water tanks for \$17,263 (ETB 949,500) were split into multiple requisitions to avoid tendering thresholds. These same items were purchased within days of each other, and from the same vendor, with identical documentation provided to support the purchases. Moreover, the iron sheets delivered were substandard, i.e., G-35 instead of the specified G-32 iron sheets.
- Bidders were also only given a day to bid thereby limiting effective competition. For the bid opening, evaluation and signing of the contract with the selected vendor to supply wet food totaling \$2.9 million (ETB 155 million), all happened on the same day. Moreover, beneficiary distribution lists under the wet-feeding programme all had the same signature.

30. **Lack of supporting documentation:** Several procurement activities lacked essential documentation, including the absence of a database of pre-qualified vendors and no evidence of public bidding for key purchases. For example, the shelter partner did not maintain records to justify vendor selections for purchases totaling \$2.8 million (ETB 151.7 million). Additionally, there were missing records for fuel purchases totaling \$18,291 (ETB 1,006,000), \$2,291 (ETB 126,000) of which had been purchased on the black-market, thereby raising the risk of compromised quality and safety, and ultimately raising a reputation risk for UNHCR.

31. The issues noted above were due to inadequate capacity assessment of partners prior to selection and designation of procurement not informed by diligent analysis. These issues were not identified by the Representation's project control and multi-functional teams, which reflected gaps in their capacity to effectively plan for and monitor procurement activities.

(4) The UNHCR Representation in Ethiopia, in collaboration with the Regional Bureau for East, Horn of Africa and Great Lakes, should: (i) conduct a comprehensive comparative assessment to inform its decisions to designate procurement to partners; and (ii) review irregular procurements highlighted by the audit with the view to taking appropriate remedial action, including recoveries and referrals to the Inspector General, if warranted. (Critical)

UNHCR accepted recommendation 4 and stated that the Representation will undertake a comprehensive comparative assessment to inform its decisions to designate partner procurement capacity in the ongoing 2025 partner selection process. The MFT has conducted an in-depth review of 2024 procurement processes and disallowed \$906,000. Furthermore, the issues raised in this audit have been referred to IMAS for a special audit.

D. Monitoring of funded partnerships

Need to reinforce mechanisms for monitoring programme implementation

32. The Representation had risk-based monitoring plans in place but did not conduct verifications as required, and the frequency of reviews were not commensurate with the risk rating of partners. While all performance and financial verification reports were available for 2022, only the mid-year performance and half of the final financial verification reports were shared for 2023. The quality and overall effectiveness of reviews conducted by MFTs were impacted by the fact that about half of the reviews were being conducted either remotely or using a hybrid review approach, even in locations with satisfactory security such as Addis Ababa. No arrangements were put in place to monitor programme implementation in insecure locations, such as the use of third-party monitors.

33. OIOS review of the monitoring reviews conducted by the MFTs also revealed the following weaknesses:

- Capacity gaps were identified in the MFTs regarding the technical composition of the MFTs: for instance, supply staff did not participate in the partner procurement verifications as required; and junior staff in assisting positions were assigned to undertake both financial and performance verifications of partners rated as high risk. Further, the low level of samples selected for financial verifications, especially for partners assessed as high risk, was concerning; for five of the 25 review reports sampled, less than 13 percent of project expenditure was verified by project control staff, which was low considering the assessed risk of partners.
- The Representation approved project instalments to partners before previous disbursements were fully accounted for. For example, disbursements of \$1.24 million (ETB 68.2 million) were made without prior funds being accounted for. Similarly, the Representation approved further instalments to partners without confirmation of adequate progress in project implementation. For instance, three partners reported low programme performance, yet all their budgets were fully utilized. No explanations nor corrective actions were available for the poor performance.
- Partners did not always provide adequate documentation for proper financial verifications, e.g., the partner for housing and settlements did not provide its bank statements to facilitate the financial verification.
- Inconsistencies were noted in the performance targets listed in the PFAs, performance reports, and COMPASS. For example, the output indicator for the number of transitional shelters maintained for the partner for shelter was shown as 795 in PPAs but zero in COMPASS.
- Where MFTs identified financial deficiencies and implementation challenges, the recommendations raised were not implemented by the partners. For example, a recommendation to recover \$148,350 ineligible costs incurred by a partner was still pending more than a year later.

34. The projects reviewed by OIOS were part of the 92 selected for external audits in 2023. However, none of the issues reported above were identified by the projects' external audits. Moreover, the external auditors gave an overall satisfactory assessment of partners' financial and procurement controls in the Overall Assessment of Partner's Financial Management Capacity Findings. There was no status report on the closure and corrective actions taken to address the recommendations raised in 39 projects' external audits in 2022.

35. If unaddressed, the issues above will continue to impact the Representation's ability to identify for mitigation key issues affecting programme implementation and deficiencies in internal controls which contribute to incidents of fraud, mismanagement, and loss of funds.

- (5) The UNHCR Representation in Ethiopia should reinforce its monitoring of partners by: (i) reviewing the terms of reference, composition and capacity of the programme unit that manages partners and multi-functional teams (including project control), to improve their performance and strengthen accountability in programme implementation; (ii) conduct risk-based monitoring of partners; and (iii) in collaboration with the Division of Strategic Planning and Results, ensure project external auditors conduct project audits in accordance with professional standards.**

UNHCR accepted recommendation 5 and stated that: (i) the Representation has initiated action to reinforce the capacity and capability of programme, partner management and project control; (ii) Project Control will continuously monitor partners rated as high-risk as per the monitoring plan; and (iii) DSPR and the Regional Bureau will in consultation with the Ethiopia Representation review current and past audits arrangements.

Need to enhance regional bureau capacity to provide second line oversight

36. The weaknesses highlighted in this report indicate a need for increased Regional Bureau oversight and support to the Representation in finding sustainable ways of mitigating well-known and long-standing risks associated with partnership management in the operation. A recommendation related to the need to reinforce the Regional Bureau's oversight and support was raised under another OIOS report (Report 2023/025) and it remains outstanding. Thus, a recommendation is not raised in this regard.

IV. ACKNOWLEDGEMENT

37. 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.

Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁴ / Important ⁵	C/ O ⁶	Actions needed to close recommendation	Implementation date ⁷
1	The UNHCR Representation in Ethiopia should conduct a comprehensive assessment to inform its decisions on the most cost-effective arrangements of implementing programme activities and the optimal number of partners needed to deliver services to forcibly displaced persons.	Important	O	Receipt of evidence of: <ul style="list-style-type: none"> • Comprehensive assessment of partner capacity to support cost-effective implementation of programme activities; and • Optimization of number of partners retained for delivery of services. 	30 June 2025
2	The UNHCR Representation in Ethiopia should urgently address delays in completing the Partnership Framework Agreements.	Important	O	Receipt of evidence of: <ul style="list-style-type: none"> • Timely completion of Partnership Framework Agreements; • Differentiation of roles and responsibilities of UNHCR and the government partner; and • Timely disbursement of instalments to partners for project implementation. 	30 June 2025
3	The UNHCR Representation in Ethiopia should: (i) reassess partners' capacity to undertake fiduciary responsibilities in accordance with UNHCR rules; and (ii) review unsupported and ineligible transactions and take appropriate action including recoveries and referral to the Inspector General, if warranted.	Critical	O	Receipt of evidence of: <ul style="list-style-type: none"> • Partners selected based on: (i) capacity assessments; (ii) proper allocation of available resources between programme and partner staff and overhead costs; and (iii) monitoring plans; and • A report from the review of unsupported and ineligible expenditures and confirmation of recovery of losses. 	30 June 2025
4	The UNHCR Representation in Ethiopia, in collaboration with the Regional Bureau for East, Horn of Africa and Great Lakes, should: (i) conduct a comprehensive comparative assessment to inform	Critical	O	Receipt of evidence of: <ul style="list-style-type: none"> • Assessment of partner procurement capacity conducted and reassessed devolution of 	30 June 2025

⁴ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

⁵ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

⁶ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁷ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁴ / Important ⁵	C/ O ⁶	Actions needed to close recommendation	Implementation date ⁷
	its decisions to designate procurement to partners; and (ii) review irregular procurements highlighted by the audit with the view to taking appropriate remedial action, including recoveries and referrals to the Inspector General, if warranted.			<p>procurement authority to the partners with great consideration of centralized (direct) procurement of high value purchases, use of existing frame agreements for improved efficiency and standardization of purchased items.</p> <ul style="list-style-type: none"> • A report from the review of unsupported and ineligible expenditures and confirmation of recovery of losses; and • Reconsidered engagements with the affected partners. 	
5	The UNHCR Representation in Ethiopia should reinforce its monitoring of partners by: (i) reviewing the terms of reference, composition and capacity of the programme unit that manages partners and multi-functional teams (including project control), to improve their performance and strengthen accountability in programme implementation; (ii) conduct risk-based monitoring of partners; and (iii) in collaboration with the Division of Strategic Planning and Results, ensure project external auditors conduct project audits in accordance with professional standards.	Important	O	<p>Receipt of evidence of:</p> <ul style="list-style-type: none"> • Revised and implemented guidelines, terms of reference, composition and capacity of the programme unit that manages partners, and multi-functional teams (including project control). • Programme and project control staff with the requisite skills and experience as per the respective job description and requirements; • Risk-based monitoring reports of partners; and • Action plan on how project external audit arrangements will be reinforced. 	31 December 2025

APPENDIX I

Management Response

Management Response

Audit of the management of funded partners in Ethiopia for the Office of United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁸ / Important ⁹	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
1	The UNHCR Representation in Ethiopia should conduct a comprehensive assessment to inform its decisions on the most cost-effective arrangements of implementing programme activities and the optimal number of partners needed to deliver services to forcibly displaced persons.	Important	Yes	Senior Programme Coordinator	30 June 2025	<p>In October 2024, the Representation conducted a comprehensive assessment to determine the most appropriate modality for delivering results in line with the multi-year strategy approved by the Regional Bureau. Further assessments will be conducted in Q3 of each year to make the necessary adjustments as needed.</p> <p>The IPMC convened from 26th November to 1st December 2024 to select the best fit partners for service delivery for 2025 and beyond. Given the dwindling humanitarian funding the IPMC has identified optimal partners to deliver protection and assistance services in 2025 and beyond. The number of partners that will sign project workplans with UNHCR is projected to decrease from 48 in 2024 to 36 in 2025. This reduction aims to streamline resources allocation and improve both cost effectiveness and operational efficiency.</p>

⁸ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

⁹ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

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2	The UNHCR Representation in Ethiopia should urgently address delays in completing the Partnership Framework Agreements.	Important	Yes	Principal Situation Coordinator	30 June 2025	<p>Significant progress has been made including development of a draft SOP in November 2024 to clarify the roles and responsibilities of the different parties (UNHCR, Refugees and Returnees Service (RRS) and partners), and to address the underlying causes for the delays in the timely finalization of the PWPs and ensure greater predictability and efficiency in our engagements.</p> <p>The representation with support from the regional bureau and headquarters met with the senior management of RRS on 4th November 2024 to address their concerns regarding the Partnership Framework Agreement (PFA) clauses and the signature block within the Project Workplan (PWP) template which were the principal cause of delays of PWP signing raised by RRS.</p> <p>Following the joint mission, UNHCR HQ revised the relevant PFA clauses and resolved the concerns regarding the signature block within the PWP.</p> <p>By implementing the actions outlined above, the Representation is committed to addressing existing challenges and ensuring that PWPs are finalized within the set timelines.</p>
3	The UNHCR Representation in Ethiopia should: (i) reassess partners' capacity to undertake fiduciary responsibilities in	Critical	Yes	Senior Programme Coordinator	30 June 2025	The Representation has already taken action to mitigate the associated risks. Internal control questionnaires and

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	accordance with UNHCR rules; and (ii) review unsupported and ineligible transactions and take appropriate action including recoveries and referral to the Inspector General, if warranted.			Senior Project Control Officer /Coordinator		<p>assessments have been completed prior to signing PWP for 2022, 2023 and 2024. Mitigation measures such as financial and project performance verifications; training for partners; new PFAs; regular monitoring and evaluation; and support and guidance are provided routinely to partners by Programme Management and Project Control staff.</p> <p>i) The Representation will conduct new Internal Control Questionnaires and Assessments exercise for partners selected for 2025 implementation.</p> <p>Internal Control Assessments will be undertaken for 2025 prior to the signing of partnership workplans.</p> <p>The Representation will conduct a thorough due diligence assessment of potential partners for the 2025 programme cycle, to assess their financial management capacity, including their internal controls, financial reporting, and audit processes.</p> <p>Training and capacity-building initiatives to enhance partners' understanding of UNHCR's financial policies, procedures, and reporting requirements will continue, including the Government partner.</p>

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						<p>Throughout the programme cycle, the Representation will strengthen its performance and financial monitoring activities, the Representation will reinforce a multi-functional team approach, to ensure compliance with financial and performance management standards and to identify areas for improvement.</p> <p>Where verifications will have identified transactional issues and irregularities, the necessary controls will be strengthened.</p> <p>ii) The Representation has already started reviewing the ineligible transactions and some recoveries have been made. The representation's MFT conducted a thematic verification consisting of an in-depth review of 2024 PWPs procurement processes in November 2024 for the two partners in question and a total of \$906,000 has been disallowed from the shelter partner and ineligible expenses have been removed from the Project Financial Report. The operation is working with the partner to recover all confirmed ineligible expenses. Furthermore, the queried issues for 2022 and 2023 have been escalated to Implementation Management and Assurance Service (IMAS) for</p>

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						special audit. The external auditor has already been selected by IMAS and will commence the special audit in January 2025.
4	The UNHCR Representation in Ethiopia, in collaboration with the Regional Bureau for East, Horn of Africa and Great Lakes, should: (i) conduct a comprehensive comparative assessment to inform its decisions to designate procurement to partners; and (ii) review irregular procurements highlighted by the audit with the view to taking appropriate remedial action, including recoveries and referrals to the Inspector General, if warranted.	Critical	Yes	Senior Programme Coordinator Senior Supply Coordinator	30 June 2025	<p>i) The Representation will undertake a comprehensive comparative assessment to inform its decisions to designate partner procurement capacity in the ongoing 2025 partner selection process (ICA) prior to signing of new Partnership Frame Agreements in accordance with the policy.</p> <p>ii) The MFT of the representation conducted a thematic verification with an in-depth review of 2024 PWPs procurement processes in November 2024 for the two partners in question and a total of \$906,000 has been disallowed from the shelter partner and ineligible expenses have been removed from the PFR. Furthermore, the audit issues raised in relation to the shelter partner for 2022 and 2023 have been escalated to IMAS for special audit.</p> <p>The recruitment of the P-5, Senior Supply Coordinator that will reinforce the MFT composition is underway.</p>

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						The MFT composition will be reinforced to include Supply, Project Control, Protection, Programme and Technical units, with clear terms of reference and accountabilities.
5	The UNHCR Representation in Ethiopia should reinforce its monitoring of partners by: (i) reviewing the terms of reference, composition and capacity of the programme unit that manages partners and multi-functional teams (including project control), to improve their performance and strengthen accountability in programme implementation; (ii) conduct risk-based monitoring of partners; and (iii) in collaboration with the Division of Strategic Planning and Results, ensure project external auditors conduct project audits in accordance with professional standards.	Important	Yes	Principal Situation Coordinator	31 December 2025	<p>i) To reinforce the capacity and capability of programme, partner management and project control the following investments will be made in senior staffing:</p> <ul style="list-style-type: none"> o Creation of the position of Principal Situation Coordinator at the D1 level, to oversee the entire operation in terms of programme coordination and management, supply and logistical support, project control, and technical functions, including WASH, Shelter, CBI, Education, Energy, and Livelihoods. o Creation of a Senior Programme Coordinator (P5) reclassified from Assistant Representative Programme. o Creation of a new Senior Operations Officer (P4). <p>ii) Project Control will continuously monitor partners rated as high-risk as per the monitoring plan.</p> <p>The frequency, depth, and extent will be increased proportionately to the</p>

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						<p>risk levels. A surge team of Project Control staff will be deployed on Temporary Appointments to strengthen the Project Control function.</p> <ul style="list-style-type: none"> ○ Third party monitoring will be deployed to strengthen monitoring of specific sectors i.e. CBI, shelter. ○ The Division of Roles and Responsibilities framework (MFT Memo) will be updated to clarify the effectiveness of the Team's engagement and the scope of the roles included within. ○ Training will be conducted in response to identified gaps in capacity and capability. <p>iii) DSPR and the Regional Bureau will undertake to conduct a review of findings from current and past audits to identify, in consultation with the Ethiopia Representation, opportunities for additional audit assignments, in accordance with ISRS4400 agreed upon procedures, including operational audits during project implementation.</p>