



INTERNAL AUDIT DIVISION

REPORT 2013/139

Audit of security, asset management and procurement activities in the United Nations High Commissioner for Refugees sub office Dadaab in Kenya

Overall results relating to the effective management of security, asset management and procurement activities in sub office Dadaab were assessed as partially satisfactory. Implementation of one important recommendation remains in progress.

FINAL OVERALL RATING:
PARTIALLY SATISFACTORY

20 December 2013
Assignment No. AR2013/112/01

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AUDIT REPORT

Audit of security, asset management and procurement activities in the United Nations High Commissioner for Refugees sub office Dadaab in Kenya

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) security, asset management and procurement activities in sub office Dadaab, Kenya (hereafter referred to as 'SOD').
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. SOD was opened in 1991 to oversee the Dadaab refugee camp. The number of refugees in this camp has grown from 90,000 in 1991 to around 463,000 in 2012. The UNHCR Representation in Kenya (Representation), which was opened in 1969 to support the Government of Kenya's efforts to strengthen its refugee-management systems, is responsible for sub office Dadaab. The Supply Unit of the Representation (Supply Unit) oversees the procurement and asset activities of Dadaab.
4. The expenditures of sub office Dadaab were \$5.2 million in 2011 and \$3.5 million in 2012, respectively. The estimated budget for 2013 was \$8.2 million. In addition, in 2012, SOD had been allocated a procurement budget of around \$16 million to strengthen security arrangements in the compound and refugee camps. This included \$355,764 for security improvements under the Security Partnership Project (SPP). SOD had a total of 131 staff posts comprised of 27 international and 104 local posts. There were 12 vacancies. As of 25 January 2013, SOD held 396 Property, Plant and Equipment (PPE) items with a purchase value of \$16.2 million as well as 1,175 Serially Tracked Items (STIs) with a purchase value of \$1.3 million.
5. Comments provided by the Representation are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the Representation's governance, risk management and control processes in providing reasonable assurance regarding **the effective management of security, asset management and procurement activities in the UNHCR sub office Dadaab in Kenya**.
7. This audit was included in IAD's 2013 risk-based annual workplan, following discussions with the Africa Bureau, because of the risks presented by Dadaab being the largest refugee camp operated by UNHCR and the complexity of the security environment in which the activities were carried out.
8. The key controls tested for the audit were: (a) regulatory framework; and, (b) safety and security. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Regulatory framework** – controls that provide reasonable assurance that security, asset management and procurement policies and procedures are adequate and effective.

- (b) **Safety and security** – controls that provide reasonable assurance that appropriate policies and procedures have been implemented for safety and security of staff and property of SOD.

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

10. OIOS conducted the audit from February to April 2013. The audit covered the period from January 2011 to March 2013.

11. The audit team conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted the necessary tests to determine their effectiveness in the areas of security, procurement and asset management. OIOS interviewed UNHCR staff in the Branch Office Nairobi and SOD, reviewed relevant documents including policies, guidelines, procedures and data available in Managing for Systems, Resources and People (MSRP) and held meetings with implementing partners and reviewed their procurement documents and policies.

12. The audit was only able to inspect one out of the five warehouses due to security concerns. Also, the staff of one implementing partner were interviewed in Nairobi due to a security incident that had occurred prior to the audit mission that required the implementing partner to reduce its presence in Dadaab.

III. AUDIT RESULTS

13. The Representation's governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of security, asset management and procurement activities in the UNHCR sub office Dadaab in Kenya**. OIOS made five recommendations to address issues identified in the audit.

14. Controls over the Regulatory framework were initially assessed as partially satisfactory because action needed to be taken to: (a) effectively monitor the procurement activities of implementing partners to ensure compliance with UNHCR rules; and (b) to ensure accuracy and completeness of assets held by implementing partners, including completion of the Right of Use Agreements. Action was subsequently taken by the Representation to address these issues.

15. Controls over safety and security were partially satisfactory because the clauses in the Memorandum of Understanding (MoU) with the Government of Kenya (GoK) for the Security Partnership Project (SPP) had not been adhered to. There was a need to: transfer vehicles given to GoK under the SPP and to review the MoU clauses to ensure effectiveness and compliance with annual review requirements.

16. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as the implementation of one important recommendation remains in progress.

Table 1
Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of security, asset management and procurement activities in the UNHCR sub office Dadaab	(a) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Safety and security	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Action was taken to ensure that procurement undertaken by implementing partners was monitored to safeguard UNHCR interests

17. SOD was responsible for 60 procurement contracts worth approximately \$15 million which were executed by implementing partners. SOD did not manage these contracts in compliance with the rules and as a result could not demonstrate that UNHCR interests were safeguarded and best value for money was obtained from the work. Examples of the control failures observed during the audit were:

- SOD failed to seek approval of the Local Committee on Contracts where required because the staff responsible were not aware or trained in the implementing partner’s procurement guidelines.
- Implementing partners had not been made aware of the procurement rules that they should follow, and no work had been undertaken by SOD to check what rules were being followed for procurement. As a consequence, one implementing partner was delegated \$200,000 for the procurement of an ambulance, but bought four Toyota Land Cruisers instead of the ambulance. This was not noticed or corrected by SOD. In another procurement case reviewed, records showed that at least two construction contractors had been awarded contracts despite having arithmetical errors in their bids. For example, a bidder submitted a quotation for \$30,000 but after having the bid awarded claimed that there was a difference in the price submitted of \$1,467 due to the engineer’s miscalculations on the estimates.

(1) The UNHCR Representation in Kenya should establish an action plan to strengthen arrangements for monitoring implementing partner procurement activities.

The UNHCR Representation in Kenya accepted recommendation 1 and stated that it has implemented this recommendation. Implementing Partner procurement profile tools, including a risk analysis assessment and checklist were in place and in use. A joint Implementing Partner quarterly procurement monitoring and verification plan was in place. The above plan has been integrated into a broader joint supply, program and project control implementing partner quarterly monitoring and verification plan. The above was supplemented with ad hoc monitoring and verification of implementing partners

submitting Financial Monitoring Reports outside the agreed schedule. Based on actions taken recommendation 1 is closed.

Action was taken to ensure records of Serially Tracked Items and assets in custody of implementing partners are accurate and complete

18. Serially Tracked Items (STIs): UNHCR rules require SOD to perform an annual STI physical verification to confirm the accuracy and completeness of the assets. SOD had not completed a physical verification in 2012 of 1,960 STIs valued at \$921,998. This occurred due to insufficient staff being available to handle STIs and the work required for verification of inventory to ensure compliance with International Public Sector Accounting Standards (IPSAS). By failing to maintain an accurate and complete status of STIs, SOD increased the likelihood of: missing assets not being identified on time, and the possibility of inaccurate information in the financial statements of UNHCR.

19. Assets in custody of implementing partners: SOD had not ensured that a Right of Use Agreement (RUA) had been issued to two of the 22 implementing partners to whom assets had been given. In addition, a physical verification of all assets held by implementing partners in SOD had not been conducted in 2013 as required by the rules. This had occurred due to insufficient staff resources being dedicated to verification of assets.

(2) The UNHCR Representation in Kenya should ensure that sub office Dadaab has assigned sufficient staff to the management of Serially Tracked Items.

The UNHCR Representation in Kenya accepted recommendation 2 and stated that the office recruited one additional general staff (GS-6) Supply Associate (Asset Management) in SOD this year to ensure STI management practices complied with the rules. Based on actions taken recommendation 2 is closed.

(3) The UNHCR Representation in Kenya should (a) issue Right of Use Agreements to all implementing partners; and, (b) complete the physical verification of assets held by implementing partners in sub office Dadaab.

The UNHCR Representation in Kenya accepted recommendation 3 and stated that it has implemented this recommendation: (a) Right of Use Agreements were signed with all implementing partners in Dadaab; and, (b) the physical verification of assets held by implementing partners was concluded in September 2013. Based on actions taken recommendation 3 is closed.

Action was taken to comply with policies for ensuring accurate and complete inventory records in warehouses

20. A stocktake undertaken by OIOS at one of the five warehouses revealed that there were discrepancies between the physical stock and stock recorded on the bin cards of the inventory amounting to \$24,169. This occurred because of the lack of guidance and oversight in ensuring that bin cards were accurate and complete. As the cause related to an absence of guidance it was likely that a similar situation existed in the other warehouses that OIOS was unable to visit due to security concerns.

(4) The UNHCR Representation in Kenya should strengthen its monitoring of warehouses and ensure that warehouse stock bin cards are accurately maintained.

The UNHCR Representation in Kenya accepted recommendation 4 and stated that the Supply Unit developed a Standard Operating Procedure for inventory management to require accurate records being maintained between the physical counts and stock counts on the bin cards; and, implemented the use of MSRP-generated stock reports and warehouse stock bin cards. Based on actions taken, recommendation 4 is closed

B. Safety and security

Dadaab compound was compliant with the Minimum Operating Security Standards

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

Action was taken to re-assess and comply with the clause in the memorandum of understanding of the Security Partnership Project regarding transfer of vehicles, whilst action was needed for annual reviews

23. A memorandum of understanding (MoU) for the Security Partnership Project (SPP) was signed on 20 April 2011 between UNHCR Kenya and the Government of Kenya (GoK) to reinforce the security environment of the refugee camps and refugee hosting areas in SOD and Kakuma Refugee Camp. The coverage included: Ifo and Dagahaley Refugee Camps in Lagadera District; Hagadera Refugee Camp in Fafi District; and Kakuma Refugee Camp, reception, screening, transit sites, corridors, refugee hosting areas and related extensions. OIOS reviewed the implementation of the SPP/MoU and observed that the following actions had not been taken:

- The Representation did not provide the GoK with 48 vehicles which the MoU specified should be given under a Right of Use Agreement (RUA) with UNHCR retaining full rights and ownership. The Representation explained that the GoK refused to sign the RUA because it was only willing to accept a transfer of ownership.
- The Representation did not conduct an annual review of the SPP to assess its effectiveness as required by the MoU.

24. The Representation stated that failure to take these actions occurred because the clauses in the MoU for the transfer of vehicles and annual review were not practical. However, OIOS noted that there was no evidence that the Representation took any action to modify the clauses of the MoU to reflect the difficulties observed or to obtain a waiver from the Local Asset Management Board and the Headquarters Asset Management Board as required by UNHCR rules.

(5) The UNHCR Representation in Kenya should:

- a) **Ensure compliance with the specific vehicle transfer clauses of the Security Partnership Project (SPP) Memorandum of Understanding or obtain permission from UNHCR headquarters for transfer of ownership to the Government of Kenya; and,**
- b) **Conduct the annual review required by the SPP Memorandum of Understanding to assess the effectiveness of the Security Partnership Project and the feasibility of transferring the project to the Government of Kenya.**

The UNHCR Representation in Kenya accepted recommendation 5 and stated that UNHCR formally approved the transfer of ownership of the SPP project vehicles to the Government of Kenya. The annual joint review of the Security Partnership Project MoU to assess project effectiveness and study the feasibility of transferring it to the Government of Kenya was proposed to take place at the end of November 2013. Recommendation 5 remains open pending: (a) physical transfer of vehicles to the Government of Kenya; and (b) the annual review of the effectiveness of the Security Partnership Project and consideration of the feasibility of transferring the project to the Government of Kenya.

IV. ACKNOWLEDGEMENT

25. OIOS wishes to express its appreciation to the Management and staff of United Nations High Commissioner for Refugees operations in Kenya for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of security, asset management and procurement activities in the United Nations High Commissioner for Refugees sub office Dadaab in Kenya

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Kenya should establish an action plan to strengthen arrangements for monitoring implementing partner procurement activities.	Important	C	Action completed.	Implemented
2	The UNHCR Representation in Kenya should ensure that sub office Dadaab has assigned sufficient staff to the management of Serially Tracked Items.	Important	C	Action completed.	Implemented
3	The UNHCR Representation in Kenya should (a) issue Right of Use Agreements to all implementing partners; and, (b) complete the physical verification of assets held by implementing partners in sub office Dadaab.	Important	C	Action completed.	Implemented
4	The UNHCR Representation in Kenya should strengthen its monitoring of warehouses and ensure that warehouse stock bin cards are accurately maintained.	Important	C	Action completed.	Implemented

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by United Nations High Commissioner for Refugees in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of security, asset management and procurement activities in the United Nations High Commissioner for Refugees sub office Dadaab in Kenya

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
5	<p>The UNHCR Representation in Kenya should:</p> <p>a) Ensure compliance with the specific vehicle transfer clauses of the Security Partnership Project (SPP) Memorandum of Understanding or obtain permission from UNHCR headquarters for transfer of ownership to the Government of Kenya; and,</p> <p>b) Conduct the annual review required by the SPP Memorandum of Understanding to assess the effectiveness of the Security Partnership Project and the feasibility of transferring the project to the Government of Kenya.</p>	Important	O	Physical transfer of the vehicles to the Government of Kenya and review of the effectiveness of the Security Partnership Project and consideration of the feasibility of transferring the project to the Government.	30/11/2013

APPENDIX I

Management Response

MANAGEMENT RESPONSE

Audit of security, asset management and procurement activities in the United Nations High Commissioner for Refugees sub office Dadaab in Kenya

Rec no.	Recommendation	Critical ¹ / Important ²	Accepted (Yes/No)	Title of responsible Individual	Implementation Date	Client comments
1	The UNHCR Representation in Kenya should establish an action plan to strengthen arrangements for monitoring of implementing partners' procurement activities.	Important	YES	Senior Project Control Officer	January 2012	The Representation has implemented this recommendation. Implementing Partner procurement profile tools, including a risk analysis assessment and checklist, are in place and in use. A joint Implementing Partner quarterly procurement monitoring and verification plan is in place. The above plan is integrated into a broader joint supply, program and project control implementing partner quarterly monitoring and verification plan. The above is supplemented with <i>ad hoc</i> monitoring and verification of implementing partners submitting Financial Monitoring Reports outside the agreed schedule.
2	The UNHCR Representation in Kenya should ensure that sub office Dadaab has assigned sufficient staff to the management of Serially Tracked Items.	Important	YES			Implemented
3	The UNHCR Representation in Kenya should: (a) Issue Right of Use agreements to all implementing partners; and (b) Complete the physical verification of assets held by implementing partners in sub office Dadaab.	Important	YES	Senior Supply Officer	January 2013	The Representation has implemented this recommendation. (a) Right of Use Agreements are signed with all implementing partners in Dadaab. (b) The physical verification of assets held by implementing partners was concluded in September 2013.

MANAGEMENT RESPONSE

Audit of security, asset management and procurement activities in the United Nations High Commissioner for Refugees sub office Dadaab in Kenya

Rec no.	Recommendation	Critical ¹ / Important ²	Accepted (Yes/No)	Title of responsible Individual	Implementation Date	Client comments
4	The UNHCR Representation in Kenya should strengthen its monitoring of warehouses and ensure that warehouse stock bin cards are accurately maintained.	Important	YES			Implemented
5	<p>The UNHCR Representation in Kenya should:</p> <p>(a) Ensure compliance with the specific vehicle transfer clauses of the Security Partnership Project (SPP) Memorandum of Understanding or obtain permission from UNHCR headquarters for transfer of ownership to Government of Kenya; and,</p> <p>(b) Conduct the annual review required by the SPP Memorandum of Understanding to assess the effectiveness of the Security Partnership project and the feasibility of transferring the project to the Government of Kenya.</p>	Important	YES	Deputy Representative	November 2013	<p>The Representation has implemented 5 (a) while 5 (b) remains in-progress.</p> <p>(a) UNHCR formally approved the transfer of ownership of the SPP project vehicles to the Government of Kenya.</p> <p>(b) The annual joint review of the Security Partnership Project SPP MoU to assess project effectiveness and study the feasibility of transferring it to the Government of Kenya is proposed to take place at the end of November 2013.</p>