



INTERNAL AUDIT DIVISION

REPORT 2017/108

Audit of the regional operations for Central Europe in Hungary for the Office of the United Nations High Commissioner for Refugees

There was a need to address control deficiencies in regional strategic and protection planning, regional programme monitoring and reporting, partnership management, and procurement and vendor management; however, the Regional Representation took prompt corrective action on all the issues raised

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Audit of the regional operations for Central Europe in Hungary 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) regional operations for Central Europe. The audit covered the period from 1 January 2015 to 31 December 2016 and included a review of: (i) regional internal coordination; (ii) planning and resource allocation at the regional level; (iii) programme monitoring and reporting over protection and programme activities at the regional level; (iv) partnership management; (v) financial management; (vi) procurement and vendor management; and (vii) enterprise risk management (ERM).

The Regional Representation's controls over financial tracking and reporting were adequate, and its risk management procedures were generally in line with the UNHCR requirements for ERM. However, there was a need to: (i) address shortcomings in regional strategic and protection planning; (ii) strengthen programme monitoring and reporting arrangements over the activities implemented by the country operations in the region; (iii) manage risks associated with implementing projects through partnerships; and (iv) strengthen planning, management, supervision and oversight arrangements over procurement and vendor management.

OIOS made four recommendations. To address issues identified in the audit, the Regional Representation needed to:

- Communicate its multi-year protection strategy and standard operating procedures for priority protection activities to all country operations in the region, ensure that needs assessments of persons of concern are conducted in a consistent manner, and ensure that protection and programme procedures, forms and tools are applied across the region.
- Establish a system of monitoring the implementation of regional strategies and programmes through robust planning of regional support and monitoring missions and documented follow-up of actions recommended in mission reports.
- Strengthen management controls over partnership management, including in respect of partner reporting on performance indicators and risk-based performance and financial monitoring of projects.
- Put in place adequate control arrangements, including through strengthened management supervision and oversight by the Regional Committee on Contracts, to ensure full compliance with UNHCR rules and procedures for procurement in the region.

The Regional Representation took satisfactory corrective action to implement all recommendations before the final report was issued.

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Audit of the regional operations for Central Europe in Hungary 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 regional operations for Central Europe in Hungary for the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. The UNHCR Office in Hungary was established in 1989, and upgraded to Regional Representation for Central Europe (hereinafter referred to as the 'Regional Representation') in 2005. The structure of the Regional Representation consists of four country representations (Bulgaria, Croatia, Poland and Romania), and two national offices (Czech Republic and Moldova). The Regional Representation carries out the operations in Hungary through dedicated staff in Budapest and Szeged and also manages the UNHCR operations in Slovakia and Slovenia. The National Office in Moldova joined the Regional Representation on 1 January 2017. A Regional Representative at the D-1 level heads the Regional Representation's operations and reports to the Director of the Bureau for Europe. The Regional Representation maintains the overall resource management and oversight functions and coordinates the implementation of the programmes in the region.

3. In 2015, UNHCR declared a Level 2 emergency covering Hungary, Slovenia and Croatia following the significant mixed migration flows through the Mediterranean Sea and overland through Southeast Europe. The emergency was deactivated in December 2016. The response to the emergency was led and coordinated by the Regional Refugee Coordinator who was also the Director of the Bureau for Europe. Those country operations that were directly affected by the emergency reported to the Regional Refugee Coordinator on the emergency response. According to UNHCR Annual Statistical report, as of December 2015, i.e. at the height of the emergency, the Regional Representation was dealing with 122,238 persons of concern in Central Europe.

4. As of 31 December 2016, the total expenditure in 2016 across the eight countries covered by the Regional Representation (excluding Moldova that was added in January 2017) was \$14.3 million, of which \$6.5 million (45 per cent) was related to programme expenditure. The Regional Representation and its country and national offices worked with 22 partners in 2015, incurring total partner expenditure of \$4.7 million. In 2016, they worked with 27 partners who spent \$5.2 million on UNHCR projects.

5. Comments provided by the Regional Representation 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 regional operations for Central Europe.

7. This audit was included in the 2017 risk-based work plan of OIOS because of the risks related to the size and complexity of the operations in Central Europe dealing with a large influx of refugees, asylum-seekers and stateless persons spread across the countries covered by the Regional Representation.

8. OIOS conducted this audit from February to May 2017. The audit covered the period from 1 January 2015 to 31 December 2016. Based on an activity-level risk assessment, the audit covered: (i) regional internal coordination, including the organisational structure of the Regional Representation; (ii)

planning and resource allocation at the regional level; (iii) regional programme monitoring and reporting over protection and programme activities at the regional level, including controls over emergency preparedness and response, reception conditions, detention and freedom of movement, and local integration and advocacy for protection solutions; (iv) partnership management, including controls over partner selection and retention, preparation of project agreements, project financial and performance monitoring, and capacity building of partners; (v) financial tracking and reporting; (vi) procurement and vendor management, including procurement planning, procurement oversight, procurement processing, contract management and vendor registration; and (vii) enterprise risk management (ERM).

9. The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical reviews of 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) sample testing of controls using stratified sampling techniques; (e) visits to the Regional Representation's office in Budapest, and the country representations in Sofia, Bulgaria and Ljubljana, Slovenia, and the offices of four partners implementing UNHCR projects; and (f) observation of activities implemented in three asylum and refugee reception centres.

III. OVERALL CONCLUSION

10. The Regional Representation's controls over financial tracking and reporting were adequate, and its risk management procedures were generally in line with the UNHCR requirements for ERM. OIOS raised four recommendations to: (i) address shortcomings in regional strategic and protection planning; (ii) strengthen regional programme monitoring and reporting arrangements over the activities implemented by the country operations; (iii) manage risks associated with implementing projects through partnerships; and (iv) strengthen planning, management, supervision and oversight arrangements over procurement and vendor management activities.

IV. AUDIT RESULTS

A. Regional internal coordination

Unclear lines of authority and accountability between the Bureau, the Regional Representation and the country operations could result in duplication of work and delays in implementation of programmes

11. According to the UNHCR Policy on Regionalization, the Regional Representative must receive a clearly articulated delegation of authority from the Director of the Bureau at headquarters. Clear reporting lines between the Regional Representation, the Bureau and the countries under the Regional Representation's responsibility are essential to avoid confusion and duplication of work, as well as to ensure maximum effectiveness of the role and functions of the Regional Representation. The Policy further requires the Regional Representation to facilitate internal coordination with the country operations in the region.

12. During the audit period, the Regional Representation pursued strategic, operational and protection objectives in the region in close coordination with the Bureau for Europe and the different country operations. It collected information on the asylum situation through its country representations and national offices and kept the Bureau updated on the number of persons of concern in the region and actions of the Central European governments to deal with asylum-seekers and their compliance with the European Union laws and regulations. It also put in place arrangements to enhance internal coordination with the country representations and national offices through regional strategic planning meetings, support, monitoring and evaluation missions, workshops and training activities, e-mail correspondence and telephone discussions.

During the emergency, the Bureau directly supervised the emergency operations and advised the country operations in the region to report only on routine matters through the Regional Representation. The Director of the Bureau, in his e-mail of 16 December 2016 to the Regional Representative on deactivation of the Level 2 emergency in Europe, stated that additional guidance on the reduction/adjustment of reporting requirements would follow. The Bureau subsequently issued instructions to the country operations, in December 2016 and April 2017.

13. However, OIOS review of the Representation's internal coordination mechanisms in the region indicated that the roles and responsibilities at the Bureau, regional and country levels were not clearly defined. The Letter of Instructions (LOIs) issued by the Director of the Bureau to the Regional Representative and the LOIs issued by the Regional Representative to the country representatives/chiefs of mission contained the same standard directions required of a country representative, but did not specify the regional roles and responsibilities of the Regional Representative. Likewise, the individual LOIs issued by the Regional Representative to the country representatives/chiefs of mission did not clarify the oversight role of the Regional Representation, the accountability of the country representatives/chiefs of mission vis-a-vis the Regional Representative, and the reporting requirements from the country representations/national offices to the Regional Representation. The country representatives and chiefs of mission, in response to an audit questionnaire from OIOS, expressed the view that there was lack of clarity in their relationships with the Regional Representation and the Bureau.

14. The Bureau for Europe stated that the purpose of the LOIs was to grant authority to representatives to implement the allocated budget and exercise financial management, whereas the Policy on Regionalization and the job descriptions of representatives provided the relevant accountabilities, responsibilities and authorities. The Bureau further added that the authority to amend the LOIs rested with the Division of Financial and Administrative Management, while the Organizational Development and Management Service was the custodian of the accountabilities, responsibilities and authorities in UNHCR. Whilst taking note of this explanation, OIOS was concerned that unclear lines of authority and accountability between the Bureau, the Regional Representation and the country operations could result in duplication of work and delays in implementation of regional programmes, and the existing Policy on Regionalization, job descriptions, and accountabilities, responsibilities and authorities did not sufficiently address this issue. However, OIOS refrains from making a recommendation on this matter at this time, but will continue reviewing and analysing it in connection with future audits of UNHCR regional offices and discussions with management in connection with the ongoing UNHCR Headquarters Review.

B. Regional planning and resource allocation

There was a need to address shortcomings in regional strategic and protection planning

15. To facilitate effective planning, the Regional Representation is required to design and lead a consultative process with country offices in the region to develop a coherent regional strategy that is in line with the corporate vision, strategy and results framework of UNHCR. The strategy should be informed by timely and reliable data on the population of concern and both participatory and comprehensive needs assessments considering age, gender and diversity issues. The UNHCR Tool for Participatory Assessment in Operations provides the steps required for participatory assessments which include: analysing the operational context; holding structured dialogues with refugee women and men of all ages and backgrounds; and using the results of participatory assessments for developing protection and operational strategies.

16. The Regional Representation, in coordination with the country operations in the region, established regional operations plans for 2015 and 2016. These operations plans included UNHCR's protection and

operational goals and objectives for Central Europe, defined outputs and activities with allocated budgets, and identified deliverables for each year. Individual country operations took the lead in planning for their relevant population planning groups although with close guidance from the Regional Representation. The Regional Representation allocated budgets to the country operations after assessment of their operational requirements through review of financial reports in MSRP and analysis of data in Focus. The budget and resource reallocation discussions included all the heads of functional units, country representatives and chiefs of missions.

17. However, OIOS review of the Regional Representation's programme planning procedures indicated the following shortcomings:

- The Regional Representation did not develop a strategic vision for the region in light of the broad strategic vision given by the Bureau for Europe. It had also not yet finalised its protection strategy for the region for 2016-2019. As a result, there was a risk that the Regional Representation would not be able to ensure that organized and collaborative programme and protection interventions were consistently implemented to achieve the regional strategic objectives. Whilst the audit was in progress, the Regional Representation finalised a strategic vision and a protection policy but these strategic documents were not yet circulated among the country operations and the staff.
- Instead of holding structured and systematic dialogues, the Regional Representation assessed the needs of the asylum seekers in Hungary by asking questions from those arriving in the reception centres at the borders. Thus, the requirements for holding structured sessions with age, gender and diversity considerations and involving the persons of concern in participatory planning were not met. Further, there was no evidence that the needs assessment questions were asked by a multi-functional team established by the Regional Representation, as required, and supporting data, such as attendance sheets of persons of concern and statistics on equal representation of women and men, boys and girls, were not available. OIOS visit to the Representation in Bulgaria indicated that the Representation had also carried out the needs assessment the same way as the Regional Representation. The Regional Representation stated that it adjusted the modality of the needs assessment exercises because during the emergency asylum seekers mostly stayed for a very short time in the region. However, it did not obtain advice from the Division of International Protection or the Bureau of Europe before adopting the modified procedures. OIOS was concerned that with these modified procedures, it would be difficult for the Regional Representation to ensure fair representation of the women, men, boys and girls in operational and protection planning process in the region. This would hamper the achievement of the objective of accountability to persons of concern as envisaged in the UNHCR Policy on Age, Gender and Diversity Mainstreaming.
- The Regional Representation had not developed standard protection and programme procedures, forms and tools for use by the country operations to ensure consistent and coherent application of UNHCR policies, administrative instructions and guidelines in the region. It also did not maintain a repository of good practices and lessons learnt for sharing with the country operations.

(1) The UNHCR Regional Representation for Central Europe should: (i) communicate its multi-year protection strategy and standard operating procedures for priority protection activities to all country operations in the region; (ii) put in place procedures for country operations to conduct needs assessments of persons of concern through a participatory age, gender and diversity approach in a consistent manner and in line with UNHCR requirements; and (iii) ensure that standard protection and programme procedures, forms and tools are in place and applied across the region.

UNHCR accepted recommendation 1 and stated that the Regional Representation had shared its Regional Strategic Vision 2017-2019, Protection Strategy 2017-2019 and Regional Integration Strategy 2017-2019 with all the country operations under its purview. UNHCR further confirmed that the protection and programme standard operating procedures, forms and tools had been put in place and were applied in practice. The Regional Representation ensured their implementation across the region through different tools including regional training workshops and guidance provided to the country operations via video conference. Based on the action taken and evidence provided by UNHCR, recommendation 1 has been closed.

C. Regional programme monitoring and reporting

The Regional Representation needed to strengthen regional programme monitoring and reporting arrangements over the activities implemented by the country operations

18. The UNHCR Policy on Regionalization requires the Regional Representation to guide and monitor the implementation of the regional operations plan, while applying the concept of results-based management, and to manage a consultative process with the country operations for reviewing, revising, and validating country strategies and priorities and ensuring coherence and consistency based on actual achievements.

19. Whilst the Regional Representation, in consultation with the country operations, prepared mid-year and year-end key indicator reports for 2015 and 2016 to report on the achievement of objective level and impact level performance targets, it did not systematically monitor and evaluate the results of key performance indicators supplied by the country operations during 2015. Although it shared the template for the project monitoring plans in the region, it did not provide detailed guidelines on the use of monitoring reports and did not establish a procedure for follow-up and monitoring of the implementation of the template. As a result, targets for 75 out of 127 objective and output level performance indicators (59 per cent) were not achieved. During the same year, more than 100 per cent achievement was reported against 20 targets, but the Regional Representation had no supporting documents to validate the reported statistics. The Regional Representation also did not allocate any targets to nine indicators and, as a result, no performance data was collected against these indicators. The situation improved in 2016 when the Regional Representation provided risk-based monitoring plans to the country operations, which aimed at targeting focus on performance monitoring of projects. As a result, only 9 out of 46 objective and output level performance indicators (20 per cent) were not achieved during 2016. For 2017, the Regional Representation issued further guidance to the country operations on planning, monitoring, reporting and evaluation of results.

20. OIOS review of regional programme monitoring and reporting mechanisms, however, indicated the following areas that needed further attention:

- The UNHCR results-based management framework requires that the previous year's achieved targets should be set as the baseline for the following year. The Representation did not set the 2015 targets as the baseline for 2016. Instead, the targets for 2016 were set lower, which was not in line with the UNHCR results-based management framework. During the course of the audit, the Regional Representation took corrective action and targets for 2017 were adjusted.
- The Regional Representation took follow-up action on significant protection issues related to persons of concern as reported by the country operations in their monthly situation reports, but did not maintain formal records of such follow-up. Therefore, the Regional Representation had no

means to ensure that the country operations were taking action on its recommendations and instructions.

- During the period under audit, the Regional Representation carried out 208 missions for technical support and monitoring. Of these, 44 (21 per cent) were undertaken in Hungary itself, while the number of missions to Bulgaria, Moldova, Poland and Romania was less than eight in total during the year. In addition, all the support missions were undertaken without formal terms of reference or risk-based plans which would have considered the risks, needs and capabilities of each operation within the region. As a result, there was a risk that country operations with higher risks, operational concerns or urgent needs might not get support in a timely manner.

21. The above weaknesses happened because the Regional Representation did not give adequate management attention to setting up appropriate monitoring and reporting mechanism in the region.

(2) The UNHCR Regional Representation for Central Europe should establish a system of monitoring the implementation of regional strategies and programmes through robust planning of regional support and monitoring missions and documented follow-up of actions required from the Country Operations under its purview.

UNHCR accepted recommendation 2 and stated that the Regional Representation had started systematically monitoring the implementation of regional strategies through desk reviews of reports and other documents as well as through regular missions. A risk-based mission request form had been introduced. After each monitoring mission, a report was submitted and follow-up action on the report by the concerned office was ensured. After introduction of impact/performance monitoring plans, a performance progress report on activities and indicators under UNHCR's direct implementation had also been introduced. Furthermore, focal persons had been identified to ensure follow-up, reporting and advice to management and partners on corrective measure, if needed. Based on the action taken and evidence provided by UNHCR, recommendation 2 has been closed.

D. Partnership management

The Regional Representation needed to effectively manage risks associated with implementing projects through partnerships

22. The UNHCR Enhanced Framework for Implementing with Partners requires the Regional Representation to: (a) select and/or retain the best-fit partners to implement its projects; (b) establish agreements with partners on a timely basis using the relevant project partnership agreement template; and (c) monitor project activities implemented by partners as per annual risk-based financial and performance monitoring plans agreed with each partner. The country representations in the region should take steps, as necessary, to develop the capacity of partners based on an assessment of current and required capabilities.

23. The Regional Representation had established an Implementing Partnership Management Committee (IPMC) to oversee the selection and retention of partners in the country operations. It had also established a regional multi-functional verification team to conduct financial and performance monitoring of partner projects. OIOS review of controls over partnership management and visits to two partner project offices and one asylum centre in Bulgaria, two partner project offices and one asylum centre in Hungary; and one partner project office in Slovenia, indicated a number of control weaknesses, as described below.

Partner selection and retention and project partnership agreements:

24. The IPMC recommended to retain all 22 partners from 2015 also for 2016 projects but without formally documenting the evaluation of their performance as required. The Regional Representation also engaged two partners in Hungary involving a total of \$338,872 for implementing projects in 2015 without following the required selection process. It explained that the services of these two partners were deemed essential for the well-being of persons of concern, and the initial budgetary requirements did not foresee a need for a formal selection process as the amount involved was less than \$50,000. In 2016, the Regional Representation requested a post facto waiver of the 2015 selection process, but this was not granted by the UNHCR Implementing Partnership Management Service at headquarters as waivers of the selection process cannot be issued retroactively. However, the Regional Representation conducted a full, competitive and transparent partner selection process for its 2017-2018 project cycle in line with UNHCR requirements. OIOS is therefore not raising a recommendation in this regard.

25. In both years under review, the Regional Representation concluded the project partnership agreements in a timely manner and using the correct template.

Project financial and performance monitoring

26. The regional verification team conducted performance and financial verification visits and organised capacity development activities for various partners in Bulgaria, Hungary, Moldova and Slovenia. However, OIOS observed the following shortcomings in project monitoring:

- The regional verification team did not verify the validity of performance indicators reported by the partners in Slovenia and Hungary. For example, a partner in Slovenia indicated in its annual performance report of 2016 to have made 44 advocacy interventions to promote respect for the principles of non-refoulement against the performance target of 30 (thus representing an over-performance of 146 per cent). However, in the absence of relevant documentation, OIOS could not place reliance on the performance indicators reported by the partner. A partner in Hungary could not support the 36 visits reported in its 2016 annual performance report for the monitoring activities of the Serbian-Hungarian border section.
- The regional verification team did not establish risk-based monitoring plans for the 2015 and 2016 project activities. For example, it did not carry out any monitoring activities in Czech Republic, including desk reviews, and in the absence of risk-based monitoring plans it was not clear whether this was because the partners and the projects implemented in Czech Republic were considered to present a low risk. Whilst the audit was still ongoing, the team conducted the financial and performance verification of the partners in the Czech Republic.
- The verification team did not have procedures in place to ensure that weaknesses it had identified during its previous periodic monitoring visits were addressed by partners.
- One partner in Slovenia, who was allocated a budget of \$256,438 for regular and emergency operations, spent only \$154,664 of the budget in 2015, with an implementation rate of 60 per cent. The same partner spent \$109,368 against a budget of \$137,778 in 2016, with an implementation rate of 79 per cent. The Regional Representation explained that the funds were allocated to the partner in anticipation of the arrival of refugees during the emergency, but the actual number of refugees remained less in Slovenia than was the original estimate, resulting in unspent balances with the partner. The Regional Representation further informed that the partner was not retained

for the projects in 2017 because the project financial reports in 2015 and 2016 indicated that it had unsatisfactory financial and accounting controls.

27. OIOS associated the cited weaknesses with inadequate management controls and lack of enforcement of procedures on partnership management and assessment and reporting of project performance indicators. As a result, the Representation was exposed to the risk of not getting value for money from funds allocated to partners to implement UNHCR projects. The Regional Representation was of the opinion that the main cause of the shortcomings was the lack of qualified staff.

(3) The UNHCR Regional Representation for Central Europe should develop and implement an action plan to strengthen management controls over partnership management, including in respect of partner reporting on performance indicators and risk-based performance and financial monitoring of projects.

UNHCR accepted recommendation 3 and stated that the Regional Representation had strengthened management controls over partnership management. It had developed impact and performance monitoring plans whereby country operations in the region were required to report on progress made to the Regional Representation on a quarterly basis. Risk-based performance and financial monitoring of projects was being conducted by multi-functional teams in accordance with risk-based monitoring plans documented in project partnership agreements. Based on the action taken and evidence provided by UNHCR, recommendation 3 has been closed.

E. Financial tracking and reporting

Controls over financial tracking and reporting were adequate

28. The Regional Representation systematically submitted monthly and end-of-year financial reports to UNHCR headquarters in 2015 and 2016. It also developed regional Standard Operating Procedures on conducting monthly bank reconciliations and monthly closure of UNHCR accounts. It monitored and ensured that bank reconciliations were performed timely in the country operations under its supervision. OIOS review of the delegation of authority indicated that staff had some non-compatible duties; however, the Regional Representation ensured that conflicting roles were not granted to the same person for the same transaction as a mitigating control. Review of a random sample of administrative expenditures in Hungary, Bulgaria and Slovenia for a total of \$75,400 out of total administrative expenditure of \$3.0 million in the three countries in 2015 and 2016 combined indicated that vouchers were processed and adequately supported with valid documentation. The Regional Representation also ensured that its open items (receivables) were liquidated timely. OIOS concluded that the Regional Representation had an adequate system of controls in place over financial tracking and reporting.

F. Procurement and vendor management

There was a need to strengthen procurement planning, management, supervision and oversight arrangements over procurement and vendor management activities

29. The Regional Representation is required to comply with the UNHCR procurement rules and procedures, which include: (a) preparing an annual regional procurement plan according to the identified needs; (b) initiating timely procurement activities in the region to facilitate transparent and competitive procurement and ensuring that the country operations comply with the procurement rules and procedures; (c) ensuring adequate oversight over the procurement activities by establishing Regional Committee on Contracts (RCC) to review procurement of goods and services above \$150,000 and below \$500,000; (d)

ensuring adequate supporting documentation is available for payment of procured goods and services; and (e) establishing an effective vendor management system.

30. The Regional Representation had established an RCC with regional competence covering the country operations under its administrative control. Since the Regional Representation did not have a Senior Supply Officer, the RCC was only authorised to review contracts ranging from \$20,000 to \$150,000. The Committee met 14 times in 2016 and 10 times in 2015. The meeting minutes were well documented and signed by the chairperson or the alternate chairperson and the secretary. In each instance, a quorum was achieved. During the period under review, the Regional Representation raised a total of 436 purchase orders amounting to \$9.6 million for the eight countries under the Regional Representation's coverage. The Regional Representation procured goods and services for \$1.5 million through a waiver of competitive bidding approved post-facto by the Committee on Contracts at headquarters (CoC). OIOS review of these cases indicated that the justification provided by the Regional Representation for the waivers was reasonable.

31. OIOS reviewed: a sample of 39 purchase orders totalling \$1.8 million, as well as related frame agreements and contracts of goods and services out of a total procurement value of \$3.5 million in three countries, Hungary, Slovakia and Slovenia; documents related to meetings of the RCC; and available procurement planning documents. The review indicated the following control weaknesses in the Regional Representation's management and monitoring of procurement activities:

- The Regional Representation did not ensure that memos and related minutes of the RCC were systematically submitted to the CoC with a copy to the Controller and the Head of Procurement Service as required. However, whilst the audit was still ongoing, the Regional Representation started sharing the relevant documents.
- The Regional Representation did not develop needs-based procurement plans for 2015 and 2016. The lack of a procurement plan resulted in single-source procurement of car rental services in 2015 involving \$50,244 without obtaining the required prior approval of the RCC to waive the competitive bidding process before the services were rendered, which was also subsequently noted by the CoC. Although the Regional Representation had a draft plan for 2017 procurement, the plan did not cover the country operations in the Czech Republic, Slovakia and Slovenia where the Regional Representation provided direct procurement support. However, whilst the audit was ongoing, it completed the plan to include all the countries.
- The Regional Representation did not ensure that all contracts valued at more than \$20,000 were submitted to the RCC for review. For example, procurement for rental of containers in Slovenia amounting to \$24,752 was not presented before the RCC. Whilst the audit was ongoing, the Representation reduced the delegated ceiling to \$5,000 for country operations to award contracts.

32. The Regional Representation had not established a Vendor Review Committee to undertake performance reviews of all vendors, update the vendor database, and maintain individual vendor files. OIOS review of the vendor database of 4,866 approved vendors in the region, which OIOS considered excessive, indicated 359 duplicate entries of vendor records including in some cases the same bank account number, vendor identification number or vendor identification name. The Regional Representation had also not maintained vendor files containing the necessary vendor documents such as tax registration certificates, business licenses, bank statements, audited annual accounts, chamber certificates and the acceptance of the United Nations laws on child labour and related environmental issues, as per UNHCR's vendor evaluation checklist. Whilst the audit was ongoing, the Regional Representation took prompt action to establish a Vendor Review Committee.

33. The main reasons for the above control weaknesses were attributed to inadequate management supervision and oversight. In the absence of a needs based procurement plan, there was a risk of undertaking ad-hoc procurement requiring avoidable waivers and post-facto notifications resulting in loss of resources due to lack of competitive procurement. The weaknesses in procurement management and vendor registration and vetting also exposed the Regional Representation to increased risk of financial losses, engaging vendors that were erroneously or fraudulently added to the vendor database, and, in general, not obtaining value for money from the procurement of goods and services.

(4) The UNHCR Regional Representation for Central Europe should put in place adequate control arrangements, including through strengthened management supervision and oversight by the Regional Committee on Contracts, to ensure full compliance with UNHCR rules and procedures for procurement.

UNHCR accepted recommendation 4 and stated that the Regional Representation had obtained an ex-facto notification from the RCC to rectify the case indicated by OIOS. It had also introduced a vendor tracking sheet to monitor vendors' expenditures on a monthly basis. This would ensure timely submission of all the cases exceeding the threshold of \$20,000 to RCC for regularization. Based on the action taken and evidence provided by UNHCR, recommendation 4 has been closed.

G. Enterprise risk management

The Regional Representation's risk management procedures were generally in line with the UNHCR requirements for enterprise risk management

34. The Regional Representation's risk register was compiled based on a review of the relevant UNHCR guidance materials for ERM and individual risk registers prepared by the country operations in the region, as well as discussions with the country representatives and heads of mission. The risk register was reviewed and updated in June and November 2016, and OIOS assessed it as being generally in line with the requirements of UNHCR's ERM Framework. The Regional Representation also designated two ERM focal points, and arranged training for them on risk management. It further agreed to implement a suggestion from OIOS to review its risk register for any significant risks that might pertain to the implementation of its strategic goals for 2016-2018 and its role as a regional office.

V. ACKNOWLEDGEMENT

35. 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 regional operations for Central Europe in Hungary 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 Regional Representation for Central Europe should: (i) communicate its multi-year protection strategy and standard operating procedures for priority protection activities to all country operations in the region; (ii) put in place procedures for country operations to conduct needs assessments of persons of concern through a participatory age, gender and diversity approach in a consistent manner and in line with UNHCR requirements; and (iii) ensure that standard protection and programme procedures, forms and tools are in place and applied across the region.	Important	C	Action completed	Implemented
2.	The UNHCR Regional Representation for Central Europe should establish a system of monitoring the implementation of regional strategies and programmes through robust planning of regional support and monitoring missions and documented follow-up of actions required from the Country Operations under its purview.	Important	C	Action completed	Implemented
3.	The UNHCR Regional Representation for Central Europe should develop and implement an action plan to strengthen management controls over partnership management, including in respect of partner reporting on performance indicators and risk-based performance and financial monitoring of projects.	Important	C	Action completed	Implemented

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 regional operations for Central Europe in Hungary 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
4.	The UNHCR Regional Representation for Central Europe should put in place adequate control arrangements, including through strengthened management supervision and oversight by the Regional Committee on Contracts, to ensure full compliance with UNHCR rules and procedures for procurement.	Important	C	Action completed	Implemented

APPENDIX I

Management Response

Management Response

Audit of the regional operations for Central Europe in Hungary 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 Regional Representation for Central Europe should: (i) communicate its multi-year protection strategy and standard operating procedures for priority protection activities to all country operations in the region; (ii) put in place procedures for country operations to conduct needs assessments of persons of concern through a participatory age, gender and diversity approach in a consistent manner and in line with UNHCR requirements; and (iii) ensure that standard protection and programme procedures, forms and tools are in place and applied across the region.	Important	Yes	Regional Representative	11 October 2017	<p>The relevant documents had already been shared by the Regional Representative with all countries and she shared them again on 29 September 2017 (Attachment 1 + Annexes A, B & C).</p> <p>It is further confirmed that the standard protection and programme, forms and tools have been put in place and are applied in practice.</p> <p>The Regional Representation also ensures that standard protection and programme procedures, forms and tools are in place and applied across the region, e.g. through regional trainings and workshops (see the list of events in 2017 in Attachment 2); or through guidance to country offices via video conference (Attachment 3).</p>
2.	The UNHCR Regional Representation for Central Europe should establish a system of monitoring the implementation of regional strategies and programmes through robust planning of regional support and	Important	Yes	Regional Representative	11 October 2017	The Regional Office systematically monitors the implementation of regional strategies including through desk review of reports and other documents as well as regular

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.

Management Response

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	monitoring missions and documented follow-up of actions required from the Country Operations under its purview.					<p>missions. All missions are followed by mission reports requesting action/follow up by the concerned office. As a sample, please find attached the Regional Representative's Mission Report following her visit to Moldova in August (Attachment 4) and the reply (Attachment 5) and action by UNHCR Moldova (Attachment 6) as well as a bi-weekly report from Croatia (Attachment 7) and related mission reports from the Regional Representative (Attachment 8) and the Deputy Regional Representative (Attachment 9).</p> <p>Following the introduction of impact/performance monitoring plans (audit observation), it has been agreed with all countries that they submit quarterly performance progress reports. These reports also include activities and indicators under UNHCR's direct implementation and those implemented by partners. Focal persons have also been identified to ensure follow up, reporting and advising the Management and partners on corrective measures if needed. Copies of sample monitoring plans are attached (Attachments 10 & 11).</p>

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						As already informed, a risk-based mission request form has been introduced (see samples in Attachments 12-13 & 14, together with mission reports in Attachments 15 & 16).
3.	The UNHCR Regional Representation for Central Europe should develop and implement an action plan to strengthen management controls over partnership management, including in respect of partner reporting on performance indicators and risk-based performance and financial monitoring of projects.	Important	Yes	Regional Representative	11 October 2017	<p>As mentioned in the comments to Recommendation 2, the Regional Representation (RRCE) has developed/introduced impact/performance monitoring/reporting plans whereby countries in the region report on progress to the RRCE on a quarterly basis. Copies of sample monitoring plans are attached (Attachments 10 & 11).</p> <p>The joint monitoring plans with partners are an integral part of the project partnership agreements (PPA). Copies have already been shared with the auditors but some samples are attached again for reference (Attachments 17, 18 & 19). It should be noted that partners' staff are always present during the monitoring and verification exercises.</p> <p>It is also confirmed that the respective Multi-Functional Teams (MFT) participate in the monitoring missions in the field. Financial/performance monitoring and verification is</p>

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						<p>conducted by the Regional Project Control Unit together with the respective MFT members in all countries. As a reference, mission reports to Poland (Attachment 20) and Bulgaria (Attachments 21 & 22) are attached.</p> <p>RRCE has also developed a risk-based monitoring plan for its staff (Attachment 23). The plan has been sent to all countries for information and feedback. The plan is a working document and will be updated as and when needed. Additional missions may be scheduled depending on the situation in every country.</p>
4.	The UNHCR Regional Representation for Central Europe should put in place adequate control arrangements, including through strengthened management supervision and oversight by the Regional Committee on Contracts, to ensure full compliance with UNHCR rules and procedures for procurement.	Important	Yes	Regional Representative	11 October 2017	<p>RRCE has developed the attached vendor tracking form to track vendors' expenditures on a monthly basis and thus ensure that the cases are timely submitted to RCoC if the cumulative expenditures exceed the threshold of 20,000 US\$ (Attachment 24).</p> <p>In reaction to the audit report (para 31 – bullet 3), an ex-post-facto notification (Attachment 25) has been submitted to the RCoC to rectify the earlier omission (Attachment 26). The RCoC decision has been submitted to the OIOS (Attachment 27). With the introduction of the vendor tracking</p>

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						<p>table, there will be no further omissions and all cases will be timely submitted to the RCoC.</p> <p>It is also pertinent to mention that with the recruitment of a Supply Associate, the procurement and supply functions will be further strengthened.</p> <p>As requested, samples of previous RCoC agendas (Attachments 28 & 29) and samples of previous RCoC minutes (Attachments 30 & 31) are also attached.</p>