



INTERNAL AUDIT DIVISION

REPORT 2017/149

Audit of the regional operations for South Caucasus in Georgia for the Office of the United Nations High Commissioner for Refugees

There was a need to address control deficiencies in the implementation of the regional approach, the regional planning and monitoring processes, management of livelihoods and cash assistance programmes, procurement and vendor management, and risk management

19 December 2017
Assignment No. AR2017/121/02

Audit of the regional operations for South Caucasus in Georgia 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 South Caucasus in Georgia. The audit covered the period from 1 January 2016 to 31 March 2017 and included a review of: (a) regional coordination, including support to country operations in the region; (b) planning and monitoring at the regional level; (c) partnership management; (d) livelihoods and self-reliance activities; (e) cash-based interventions; (f) procurement and vendor management; and (g) enterprise risk management.

The Regional Representation had effective controls over implementation of projects through partnerships. However, it needed to strengthen arrangements over: the implementation of the regional approach; the regional planning process and monitoring of the implementation of the regional protection and solutions strategy; the management of the residual livelihoods programme; the cash assistance activities; procurement and vendor management; and risk management.

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

- In consultation with the Bureau for Europe, review the regional structure for consistency, clarify the authority delegated to it regarding engagement with the government authorities in the region, and ensure that quality control and oversight are systematically undertaken over country operations under its purview;
- Strengthen its analysis of protection related data and reporting on performance and impact indicators, and develop modalities, related milestones and monitoring tools to ensure coherent implementation of the regional protection and solutions strategy;
- Review its existing livelihoods strategy, including the considerations for disengagement, ensure that the residual livelihoods programme is monitored and aligned with the regional strategic plan for integration, and secure sufficient access to requisite livelihoods expertise and skills, commensurate with the financial value and strategic importance of the programme;
- Identify and address the risks associated with implementing cash assistance programmes in the region and, in consultation with the country operations involved, review and revise the existing SOPs to ensure that they incorporate the minimum requirements for implementing the programmes, as well as relevant monitoring procedures;
- Strengthen management supervision arrangements and staffing capacity over procurement and vendor management and train members of the new Regional Committee on Contracts and staff delegated with supply responsibilities, in order to ensure that vendor performance evaluation procedures are conducted effectively and procurement is conducted in a competitive and transparent manner; and
- Establish a systematic methodology for identification and prioritization of risks in the region, and put in place procedures for monitoring and review of priority risks which should have comprehensive treatment plans.

UNHCR accepted the recommendations, one of them partially, implemented two of them, and initiated action to implement the remaining four recommendations.

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Audit of the regional operations for South Caucasus in Georgia 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 South Caucasus in Georgia for the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. The UNHCR Office in the South Caucasus (covering Armenia, Azerbaijan and Georgia) was established in 1992 and upgraded to a Regional Representation for South Caucasus (hereinafter referred to as the 'Regional Representation') in 2015. The structure of the Regional Representation consists of the Regional Office in Georgia, which also serves as the Country Representation to Georgia (with Field Offices in Gali and Suhkumi), and the Country Representations in Armenia and Azerbaijan. A Regional Representative at the D-1 level heads the Regional Representation's operations and reports to the Director of the Regional Bureau for Europe at UNHCR headquarters. The Regional Representation is responsible for regional strategic planning, direction and coordination, provides support to Representations in the region, and maintains the overall resource management, quality control and oversight functions.

3. As of March 2017, the Regional Representation registered 913,415 persons of concern in the South Caucasus (including 886,894 internally displaced persons (IDPs); 631 asylum seekers; 21,213 refugees or persons in refugee like situation; and 4,677 stateless persons). The main protection and solution priorities in the region were: protection advocacy and coordination; protection monitoring and response; targeted protection interventions through cash-based interventions (CBI) and livelihoods assistance to vulnerable refugees; reducing protection risks faced by persons of concern in particular sexual and gender based violence (SGBV); advocacy for durable solutions for refugees and stateless persons through local integration leading to naturalization or permanent residency; and advocacy for durable solutions for IDPs through implementation of Governmental Action Plans.

4. The Regional Representation had total expenditure of \$11.2 million in 2016, and \$2.5 million in the three-month period up to March 2017 against a budget of \$9.7 million for 2017. The Regional Representation and its country operations worked with 18 partners in 2016 and incurred total expenditure of \$4.0 million. In 2017, the operations in the region worked with 15 partners with a total budget of \$2.5 million. Due to legislative restrictions on Non-Governmental Organisations in Azerbaijan, the Representation in Azerbaijan was directly implementing all its projects. As of March 2017, the Regional Representation had 70 posts, of which one post was vacant.

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 South Caucasus in Georgia.

7. This audit was included in the 2017 risk-based work plan of OIOS due to the risks related to the complexity of the operations dealing with refugees, asylum-seekers, internally displaced persons and stateless persons spread across the three countries covered by the Regional Representation in a politically sensitive climate.

8. OIOS conducted this audit from May to September 2017. The audit covered the period from 1 January 2016 to 31 March 2017. Based on an activity-level risk assessment, the audit covered higher and medium risk processes and activities pertaining to the operations in the South Caucasus, which included: regional coordination, including support to country operations in the region; planning and monitoring at the regional level; partnership management, including controls over partner selection and retention, project agreements, and project financial and performance monitoring; livelihoods and self-reliance activities; CBI; procurement and vendor management; and 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 using stratified sampling techniques; (e) visits to the Regional Representation's Office in Tbilisi (Georgia), Field Offices in Gali and Zugdidi (Georgia), Country Representations in Yerevan (Armenia) and Baku (Azerbaijan), and the offices of six partners implementing UNHCR projects in each of the three countries; and (f) observation of activities and projects implemented at the refugee reception centres in the three countries, a health facility in Baku, and a refugee integration centre in Tbilisi.

III. OVERALL CONCLUSION

10. The Regional Representation had effective controls over implementation of projects through partnerships. However, it needed to strengthen arrangements over: the implementation of the regional approach; the regional planning process and monitoring of the implementation of the regional protection and solutions strategy; the management of the residual livelihoods programme; the cash assistance activities; procurement and vendor management; and risk management.

IV. AUDIT RESULTS

A. Regional coordination

There was a need to strengthen arrangements over the implementation of the regional approach

11. To better respond to the needs of persons of concern in the region, the Regional Representation is required to: (a) clarify the level of engagement and distinction of roles and authority of the regional office vis-a-vis the country operations under its coverage; (b) establish an organizational structure in line with operational capacity and strategic and operational objectives in the region; (c) assess the level and composition of regional staffing; (d) prepare an integrated regional work plan clarifying the role in support, coordination and oversight for each regional function; and (e) justify missions to the countries by preparing terms of reference and a travel budget for each mission. These requirements are also outlined in the UNHCR Policy on Regionalization.

12. The Bureau for Europe had formally delegated authority to the Regional Representative who in turn had further delegated this authority to the two Country Representatives in the region. The operations covered by the Regional Representation each had an accredited Representative and their own administration/programme and protection capacities. The Regional Representation used its available resources to focus on strategic guidance, coordination and support to processes that were regional in nature. For example, the Regional Representation had: established a regional protection and solutions strategy and a regional communication strategy; undertaken a regional operations planning process including mid-term and year-end reviews and regional training and capacity building activities; harmonized Standard Operating Procedures (SOP) on counselling and complaints of the persons of concern, as well as on CBI; and established regional contingency planning and emergency preparedness mechanisms. In addition, it

provided support to the country operation in Armenia in response to the Nagorno-Karabakh conflict in April 2016. Moreover, the Regional Representation provided regular administrative, financial, procurement and asset management support, as well as guidance in project management and project control matters in the region. Also, it took action to develop risk-based work plans for various support missions.

13. However, OIOS review of the regional structure, minutes of regional coordination meetings, sample mission reports and discussions with staff indicated the need to further improve arrangements in the following areas:

- There were inconsistencies in the regional structure. For example, the Senior Regional Field Safety Advisor in Tbilisi, who was responsible for the entire European region, reported to the Regional Representation whereas the Regional Protection Support Unit in Tbilisi, which provided regional coordination and support on specific technical protection issues for the countries in Eastern Europe, reported to the Policy and Field Support Unit at the Bureau for Europe.
- Although key programmatic areas were covered by regional positions, there were exceptions in administrative, human resources and financial matters and in external relations/communication, where regional positions had not been created to undertake regional responsibilities. The rationale and criteria for creation of regional positions were not clear.
- There was a lack of clarity on the authority delegated to the Regional Representation regarding engagement with the government authorities, given that the country operations also had an accredited Representative.
- The Regional Representation had not clarified how it would undertake quality control and oversight over country operations in the region. For example, while the Regional Representation had a Regional Assignment Committee, a Regional Contracts Committee and a Regional Asset Management Board, it did not monitor the quality of the country operations' protection and solutions interventions and their strategic communication priorities.

14. The above shortcomings occurred partly because of the ongoing but incomplete discussions with the Bureau for Europe on issues regarding staffing structure, extent of delegation of authority, and strengthening of the implementation of regional mechanisms. An operational review was conducted by the Bureau for Europe on staffing structure towards the end of 2015; however, the conclusions of this review were not documented. As a result of the deficiencies observed in this audit, the Regional Representation was exposed to the risk that the regional mechanisms would not be effective in responding to the operational priorities and needs of persons of concern in the region.

(1) The UNHCR Regional Representation for South Caucasus, in consultation with the Bureau for Europe, should: i) review its regional structure for consistency; ii) clarify the authority delegated to it regarding engagement with the government authorities in the region; and (iii) ensure that quality control and oversight are systematically undertaken over country operations under its purview.

UNHCR partially accepted recommendation 1 while stating that the implementation of the regional policy as reflected and laid down in the regional structure and the modus operandi in the South Caucasus was already largely effective, consistent and coherent. Each of the country operations had an accredited Representative and the role of the Regional Representative was to provide strategic guidance, coordinate allocation of resources, monitor and exercise quality control, and ensure consistency in protection analysis and advocacy. While the regional structure was not in need of an extensive review as the authorities, responsibilities and accountabilities of the Regional

Representation vis-à-vis the country operations were clear, UNHCR did see merit in clarifying notably the delegated authority to the Regional Representative in his engagement with the government authorities in the region. Recommendation 1 remains open pending receipt of: a) confirmation that the consistency of the regional structure, including all the reporting lines, have been clarified; b) a copy of the authority delegated to the Regional Representation regarding engagement with government authorities in the region; and c) a copy of the monitoring plan designed to undertake quality control and oversight in the region and the status of its implementation.

B. Regional planning and monitoring

There was a need to further strengthen the regional planning process and monitoring of the implementation of the regional protection and solutions strategy

15. To achieve its regional goals, the UNHCR Programme Manual requires the Regional Representation to: design multi-year regional protection and operational strategies; set goals and objectives and establish deliverables; harmonize procedures in the region; and monitor the planning and implementation process of the country operations reporting to it. The regional planning process should be aligned with the UNHCR global strategic priorities and informed by timely and reliable data on the population of concern and participatory and comprehensive needs assessments considering age, gender and diversity issues.

16. The Regional Representation, in coordination with the country operations, and through staff retreats and regional programme and protection meetings, established consolidated annual regional operations plans for the region for 2016 and 2017. The operations plans were aligned with the UNHCR global strategic priorities and included prioritized protection and operational goals and objectives for eight separate population planning groups (PPGs) including two regional PPGs. Individual operations took the lead on planning for their relevant PPGs and reporting on indicators. For the two regional PPGs, the Regional Representation led a consultative process with the individual operations and consolidated the inputs into an overall plan and performance reports. It ensured that all country operations undertook regular participatory needs assessments using age, gender and diversity mainstreaming approach principles, which informed its operations planning. For 2017, the Regional Representation also secured an allocation of \$265,925 to cover regional activities and missions, and introduced a system of regular reporting to operations on regional budgetary allocations and expenditures. The Regional Representation had developed SOPs for key protection areas and had a process in place to periodically update them.

17. However, OIOS review of the planning process and related documents and discussions with staff indicated the following control weaknesses:

- The Regional Representation had not obtained comprehensive and disaggregated data on persons of concern in a timely manner for adequate planning as governments often shared incomplete data with the Country Representations. As a result, the Regional Representation lacked a consolidated and analytical view of this data to better inform its operations planning.
- The Regional Representation and individual operations reported in a timely manner on all indicators for their respective PPGs. However, the Representation in Azerbaijan did not include indicators to measure the timelines for the mandate Refugee Status Determination processes in 2016. In addition, OIOS review of a sample of 29 indicators showed that three performance indicators (in Georgia) and four impact indicators (in Georgia and Azerbaijan) were not correctly reported and the templates used for reporting on impact indicators (which measured the 'extent') were not uniform across the region resulting in inconsistent reporting.

- The Regional Representation developed and annually updated its multi-year regional protection and solutions strategy in consultation with the country operations. It developed modalities such as regional protection meetings, a regional protection action plan and quarterly Representatives' meetings to ensure consistency of protection advocacy throughout the region. However, there was still a need to strengthen monitoring mechanisms and harmonize some protection approaches; for example, while community-based approaches had been discussed with all staff concerned at regional meetings, they had not yet been mainstreamed across the region.

18. The above shortcomings happened because the Regional Representation had not put in place appropriate management supervision arrangements to ensure that its strategic protection objectives and procedures were regularly reviewed and updated. Although it had multiple discussions with the Bureau for Europe about the need to prioritize allocation of resources for developing modalities to enhance the coherent and consistent implementation of the regional operational strategies, the deficiencies observed exposed the Regional Representation to the risk of inadequate regional planning and monitoring affecting the achievement of regional objectives.

(2) The UNHCR Regional Representation for South Caucasus should: (i) strengthen its analysis of protection related data and reporting on performance and impact indicators; and (ii) develop modalities, related milestones and monitoring tools to ensure coherent implementation of the regional protection and solutions strategy.

UNHCR accepted recommendation 2 and stated that proGres version 4 (UNHCR's registration and case management tool) was implemented in all three operations, thereby allowing for better processing and analysis of protection related data. Further, the Regional Representation was in the process of preparing a revised and updated regional protection and solutions strategy and its implementation framework for the period 2018-2020. This would include the development of a new vision statement, revised strategic objectives, and updated milestones and corresponding implementation and monitoring tools. Recommendation 2 remains open pending receipt of: a) evidence of how the analysis of protection related data supports operational planning; and b) a copy of the regional protection and solutions strategy and implementation framework.

C. Partnership management

Control arrangements over partnership management were effective

19. In order to achieve the expected programme and project results through the use of partners, it is essential for the Regional Representation to: (i) select and retain the best-fit partners following an objective, transparent and consistent selection process; (ii) conclude project partnership agreements in a timely manner; (iii) monitor the project activities through a risk-based and multi-functional approach; and (iv) arrange for building capacity of partners as and when necessary. These requirements are also promulgated in the UNHCR Enhanced Framework for Implementing with Partners.

20. OIOS review of the arrangements put in place over partnership management, visits to six partners and a reception centre in Armenia, and observation of project activities implemented in Georgia and Abkhazia indicated that the Regional Representation had established Implementing Partnership Management Committees at the country operations level and ensured that the process for the selection and retention of partners was conducted with adequate due diligence in an objective, consistent, transparent and timely manner. Although there were delays in signing of the project partnership agreement with the government partner in Georgia because of disagreement on objectives and resource allocations, the Regional Representation put in place arrangements to improve the relationship in 2017 with the expectation that the 2018 agreement would be signed in time.

21. The Regional Representation also undertook a cost-benefit analysis before designating procurement to partners, carried out a procurement capacity assessment of each partner and entrusted procurement to three partners who were pre-qualified for undertaking procurement using UNHCR funds. It also monitored the procurement activities of partners during its financial verifications. It conducted performance and financial verification visits to each partner, prepared mission reports using the multi-functional team approach, ensured that the weaknesses identified during previous periodic monitoring visits were implemented by partners, and put in place a risk-based monitoring plan for 2016 and 2017 project activities. Further, the Regional Representation conducted capacity development activities in the form of workshops for its partners.

22. OIOS concluded that the Regional Representation had effective controls over partnership management.

D. Basic needs and services

The Regional Representation needed to monitor and align its residual livelihoods programme with the regional strategic plan for integration

23. To effectively and efficiently deliver livelihoods activities, it is essential that the Regional Representation: a) adequately plans and designs the implementation of livelihoods activities; b) has access to the requisite livelihoods expertise; c) ensures that livelihoods partners have the relevant experience and skills to implement livelihoods projects; d) monitors and reports on the expenditures, performance and impact of livelihoods programmes; and e) establishes an exit strategy to avoid persons of concern perpetuate dependence on humanitarian support. These broad requirements are promulgated in the Operational Guidelines on the Minimum Criteria for Livelihoods Programming.

24. The Regional Representation spent \$764,792 in 2016 and budgeted \$229,233 for 2017 to implement its livelihoods programme. It worked with four partners (two in Abkhazia and two in Armenia). The partners had the relevant economic development experience and expertise to help persons of concern succeed in accessing existing or potential markets. The Regional Representation monitored livelihoods interventions in Abkhazia and Armenia, and verified and confirmed the accuracy of the expenditures and performance indicators reported by partners. Also, the Regional Representation took action to assess the impact of the implementation of the livelihoods programme in Abkhazia.

25. However, OIOS review of the livelihoods programme, year-end monitoring reports, discussions with staff and visits to five (three in Gali and two in Yerevan) livelihoods projects implemented through a partner indicated the following shortcomings:

- The Regional Representation had not updated its livelihoods strategy. It also had not conducted socio-economic baseline surveys in Georgia to document the supply and demand for products and services in targeted areas. In addition, it had not conducted a market or value chain analysis of products and services for the livelihoods programme for the Syrian refugees in Abkhazia to determine prospects for sustainable self-employment.
- A review of a sample of 25 livelihoods project applications in Abkhazia indicated that the partner had not adequately documented the identification and pre-selection of applicants and, hence, it could not demonstrate transparency and participation of the selection committee in this process.
- The Regional Representation had not selected proper indicators for the livelihoods programme objective. In Armenia, the Regional Representation had not reviewed the relevant livelihoods indicators during the mid-year review and reporting process.

26. The main causes for the above-mentioned deficiencies were attributed to the lack of expertise and resources resulting in the Regional Representation disengaging from livelihoods support for the IDP population in Georgia in mid-2017, while continuing the livelihoods programme in Armenia. The Regional Representation explained that it had reviewed its disengagement strategy and planned to re-initiate limited yet strategically selected livelihoods activities for the IDP returnee population in Abkhazia to maintain its leverage in its protection oriented advocacy. Also, the Regional Representation initiated a process to engage a consultant on social-economic integration to support the operations in developing and implementing a coherent and consistent integration strategy and action plan for the refugee populations.

(3) The UNHCR Regional Representation for South Caucasus should review its existing livelihoods strategy, including the considerations for disengagement, and ensure that the residual livelihoods programme is monitored and aligned with the regional strategic plan for integration and that requisite livelihoods expertise and skills are available, commensurate with the financial value and strategic importance of the programme.

UNHCR accepted recommendation 3 and stated that the Regional Representative was in the process of hiring a consultant to review the existing livelihoods strategy, including considerations for disengagement, and ensure that the residual livelihoods programmes would be aligned with the integration strategies for the region and the respective countries. A baseline survey would be developed to serve any future livelihoods and integration related interventions. Based on the regional strategy and country specific plans of actions, measures would be taken to secure the necessary expertise and skills. Recommendation 3 remains open pending receipt of: a) a copy of the baseline survey and residual livelihoods programme prepared in alignment with the regional strategic plan for integration; and (b) a plan of action to secure the necessary expertise and skills.

There was a need to effectively manage residual risks in the cash assistance programme

27. To ensure proper delivery of its CBI programme to the most vulnerable persons of concern, the Regional Representation is required to: (i) effectively plan and design the programme based on a feasibility and risk assessment; (ii) develop SOPs governing the selection of beneficiaries and monitoring and disbursement of cash assistance, covering also anti-fraud measures; and (iii) undertake post-distribution monitoring and impact assessments of the cash assistance programme. These requirements are also outlined in the UNHCR policies and guidance for CBI.

28. The Regional Representation implemented its cash assistance programme as a complementary tool in ensuring that persons with specific needs and the most vulnerable have sufficient basic and domestic items. The implementation of the programme was done through two partners in Armenia, one government partner in Georgia, and through direct implementation in Abkhazia and Azerbaijan. The Regional Representation incurred total expenditure of \$1.2 million to assist over 10,000 persons of concern in 2016 - mostly individually assessed refugees or persons in a refugee-like situation - and budgeted \$875,777 for 2017. It conducted capacity building related to CBI activities in Georgia, Armenia and Azerbaijan. It also conducted two feasibility studies in 2016 and developed SOPs and preparedness plans for CBI in the region.

29. However, OIOS review of controls over the management of the cash assistance programme, visits to two partners and one reception centre in Armenia, and interviews with six individuals who received cash assistance in Abkhazia and Armenia indicated the following weaknesses:

- The Country Representation in Armenia did not conduct market assessments using the UNHCR Market Assessment Companion Guide and Toolkit which provided guidance into decision-making in determining the justification for CBI interventions.

- The Regional Representation did not document the use of the UNHCR Cash Delivery Mechanism Assessment Tool in Armenia to help the operation assess the adequacy of various cash delivery mechanisms in providing cash assistance to beneficiaries.
- The operation in Azerbaijan did not specify in its CBI procedures the scoring system to be used to select beneficiaries and the amounts for ad-hoc medical and extraordinary cash assistance to be disbursed to vulnerable beneficiaries. However, the operation in Georgia took action to update its SOPs to include criteria for continuous assistance for the most vulnerable persons.
- The Regional Representation and its partners developed leaflets on procedures and criteria for the selection of beneficiaries and monitoring and disbursement of cash assistance and had put complaints boxes at each office premise. However, they had not systematically developed mechanisms to process such complaints or ensured that the information is collated, analysed and fed into CBI programming. The Regional Representation explained that during the mid-year review it would incorporate such lessons into its 2018 programming.
- Although the Regional Representation had selected indicators to evaluate the performance and impact of CBI, it did not adjust the targets during the mid-year review. The year-end report reflected higher figures of persons assisted than the initial target.
- In Azerbaijan, the country operation had not conducted post distribution monitoring of the cash disbursements made to UNHCR mandate refugees in the urban context.

30. The main reason for the above deficiencies was that the Regional Representation had not sufficiently identified, addressed and monitored the residual risks in implementing CBI. If the cash assistance programmes are not effectively planned and monitored, the Regional Representation may not be able to obtain a full understanding of the operational implications of these interventions and the associated risks. This can result in an increased likelihood of failing to effectively deliver cash assistance to identified persons of concern.

(4) The UNHCR Regional Representation for South Caucasus should identify and address the risks associated with implementing cash assistance programmes in the region and, in consultation with the country operations involved, review and revise the existing standard operating procedures to ensure that they incorporate the minimum requirements for implementing the programmes, as well as relevant monitoring procedures.

UNHCR accepted recommendation 4 and stated that the SOPs were being reviewed and revised. The operation in Armenia was hiring a consultant to undertake a market assessment and to assess the adequacy of the various cash delivery mechanisms. The operation in Azerbaijan carried out post distribution monitoring of cash assistance using an online tool. Recommendation 4 remains open pending receipt of: a) copies of reports on the market assessment and the review of the cash delivery mechanisms in Armenia and its impact on the existing CBI programme; and b) copies of the revised SOPs for CBI.

E. Procurement and vendor management

The Regional Representation needed to review the vendor database, prepare procurement plans, and build the capacity of the members of the Regional Committee on Contracts

31. To get the best value for money from procurement, it is essential to: (a) establish an effective vendor management system; (b) prepare an annual procurement plan according to identified needs; (c) initiate

timely procurement activities in accordance with the procurement plan to facilitate transparent and competitive procurement; and (d) ensure adequate oversight over procurement activities. These requirements are further outlined in UNHCR procurement rules and procedures.

32. The Regional Representation ensured that a Vendor Review Committee was established in each of the three country operations. It had also established a Local Committee on Contracts (LCC) in each country operation to review and approve contracts exceeding \$20,000 and to oversee the integrity of the procurement processes. The LCCs combined had issued a total of 255 purchase orders valued at \$2.8 million in 2016 and in 2017 (as of March) combined. OIOS review of the controls in place for vendor management, procurement management and a sample of 65 purchase orders valued at \$2.1 million selected randomly (representing 75 per cent of the total procurement in Georgia, Armenia and Azerbaijan) indicated the following weaknesses:

- **Vendor management:** The Regional Representation had not ensured that the Vendor Review Committees reviewed the performance of vendors.
- **Procurement planning:** Although the Regional Representation and the country operations in Armenia and Azerbaijan prepared procurement plans for 2016 and 2017, these plans were not detailed as they did not include both programme and administrative items to be procured and were not revised to address the changing needs of the operations.
- **Procurement oversight:** In Armenia, the LCC did not approve contracts totalling \$44,409 for the purchase of air tickets and travel, and the Chairperson (or alternate) did not attend all meetings. In Georgia, the Representation did not submit to the LCC contracts totalling \$334,171 where the cumulative procurement value with a single vendor exceeded \$20,000.
- **Procurement processing:** The Regional Representation did not ensure that the country operations used the appropriate procurement method for procurement of goods and services in six cases totalling \$77,796. It also did not ensure that the country operations in 13 cases totalling \$284,418 invited the minimum number of bidders and that unsuccessful bidders were sent regret letters. Furthermore, it processed 36 purchase order vouchers worth \$94,003 for which the invoice date was before or the same as the purchase order date. The Representation in Azerbaijan awarded contracts valued at \$452,049 to single bidders in 6 of the 14 cases reviewed. It also conducted post award negotiations for five contracts with the successful bidders, which resulted in a 24 per cent cumulative increase for four contracts compared to the initial offers.

33. The main reasons for the above control deficiencies were attributed to inadequate supervision of the procurement management processes, mainly due to the absence of a Supply Officer in the region. This resulted in increased risk of fraud, inefficient operations and inability to receive value for money. Whilst the audit was ongoing, the Regional Representation established a Regional Committee on Contracts in June 2017 to replace the LCCs and to strengthen management and oversight of the procurement processes in the region. It also took action to review its vendor database and removed duplicate records and inactive vendors with whom the country operations had no transactions during the last three years.

(5) The UNHCR Regional Representation for South Caucasus should strengthen management supervision arrangements and staffing capacity over procurement and vendor management and train members of the new Regional Committee on Contracts and staff delegated with supply responsibilities, in order to ensure that vendor performance evaluation procedures are conducted effectively and procurement is conducted in a competitive and transparent manner.

UNHCR accepted recommendation 5 and stated that the members of the Regional Committee on Contracts and the staff delegated with supply responsibilities were appropriately trained. The Vendor Review Committees held quarterly meetings in all three operations. Based on the action taken and documentation provided by UNHCR, recommendation 5 has been closed.

F. Enterprise risk management

There was a need to address shortcomings related to the implementation of the ERM Framework

34. Each country operation appointed an ERM focal point who was trained to lead the ERM process. The regional risk register was updated in November 2016 before the detailed planning exercise for 2017. Multi-functional teams provided inputs to develop, review and update the risk register either through physical meetings or emails. The risk register also included fraud and corruption risks.

35. However, OIOS review of the Regional Representation's ERM procedures indicated that: a) the Regional Representation did not identify any risks related to protection monitoring and CBI, as would have been expected given the operational context; b) although the Regional Representation undertook annual reviews of the risk register, it did not follow a regular, structured process at periodic intervals to allow emerging risks to be identified and captured in a timely manner; and c) the basis for prioritizing risks was not documented. The Regional Representation also did not set target dates for treatment of all priority risks or put a process in place to regularly monitor and review its treatment of priority risks.

36. The main reasons for the above deficiencies were attributed to lack of sufficient awareness of all the mandatory requirements of the ERM Framework and inadequate management prioritization of the implementation of risk management procedures in the region. As a result, significant risks and systemic control weaknesses in the region might not be identified and corrected in a timely manner.

(6) The UNHCR Regional Representation for South Caucasus should: (i) establish a systematic methodology for identification and prioritization of risks in the region; and (ii) put in place procedures for monitoring and review of priority risks which should have comprehensive treatment plans.

UNHCR accepted recommendation 6 and stated that the Regional Representation developed and implemented SOPs for systematic identification and prioritization of risks and revised the risk registers for all three operations. Based on the action taken and documentation provided by UNHCR, recommendation 6 has been closed.

V. 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.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
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STATUS OF AUDIT RECOMMENDATIONS

Audit of the regional operations for South Caucasus in Georgia 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 South Caucasus, in consultation with the Bureau for Europe, should: i) review its regional structure for consistency; ii) clarify the authority delegated to it regarding engagement with the government authorities in the region; and (iii) ensure that quality control and oversight are systematically undertaken over country operations under its purview.	Important	O	Submission to OIOS of: a) confirmation that the consistency of the regional structure, including all the reporting lines, have been clarified; b) a copy of the authority delegated to the Regional Representation regarding engagement with government authorities in the region; and c) a copy of the monitoring plan designed to undertake quality control and oversight in the region and the status of its implementation.	31 March 2018
2	The UNHCR Regional Representation for South Caucasus should: (i) strengthen its analysis of protection related data, and reporting on performance and impact indicators; and (ii) develop modalities, related milestones and monitoring tools to ensure coherent implementation of the regional protection and solutions strategy.	Important	O	Submission to OIOS of: a) evidence of how the analysis of protection related data supports operational planning; and b) a copy of the regional protection and solutions strategy and implementation framework.	31 March 2018
3	The UNHCR Regional Representation for South Caucasus should review its existing livelihoods strategy, including the considerations for disengagement, and ensure that the residual livelihoods programme is monitored and aligned with the regional strategic plan for integration and that requisite livelihoods expertise and skills are available, commensurate with the financial value and strategic importance of the programme.	Important	O	Submission to OIOS of: a) a copy of the baseline survey and residual livelihoods programme prepared in alignment with the regional strategic plan for integration; and (b) a plan of action to secure the necessary expertise and skills.	31 March 2018

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

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Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
4	The UNHCR Regional Representation for South Caucasus should identify and address the risks associated with implementing cash assistance programmes in the region and, in consultation with the country operations involved, review and revise the existing standard operating procedures to ensure that they incorporate the minimum requirements for implementing the programmes, as well as relevant monitoring procedures.	Important	O	Submission to OIOS of: a) copies of reports on the market assessment and the review of the cash delivery mechanisms in Armenia and its impact on the existing CBI programme; and b) copies of the revised SOPs for CBI.	28 February 2018
5	The UNHCR Regional Representation for South Caucasus should strengthen management supervision arrangements and staffing capacity over procurement and vendor management and train members of the new Regional Committee on Contracts and staff delegated with supply responsibilities, in order to ensure that vendor performance evaluation procedures are conducted effectively and procurement is conducted in a competitive and transparent manner.	Important	C	Action completed	Implemented
6	The UNHCR Regional Representation for South Caucasus should: (i) establish a systematic methodology for identification and prioritization of risks in the region; and (ii) put in place procedures for monitoring and review of priority risks which should have comprehensive treatment plans.	Important	C	Action completed	Implemented

APPENDIX I

Management Response

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Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Regional Representation for South Caucasus, in consultation with the Bureau of Europe, should: (i) review its regional structure for consistency and implement an action plan to ensure that quality control and oversight are systematically undertaken over country operations under its purview; and (ii) clarify the authority delegated to it regarding engagement with the government authorities in the region.	Important	Partially Accept	Regional Representative Bureau Director	N/A	<p>We feel that we can only partially accept this recommendation as currently phrased because the facts leading to this recommendation are not fully accurate. We therefore suggest that it is reviewed and reconsidered. If this is agreed by OIOS, we would fully accept it if the review referred in part i) does not need to be a full-fledged structural review but a clarification of authority to the Regional Representative regarding his engagement with the government authorities in the region.</p> <p>In our view, the implementation of the regional policy as reflected and laid down in the regional structure and the <i>modus operandi</i> in the South Caucasus is largely effective, consistent and coherent. Each of the country operations has an accredited Representative; the role of the Regional Representative is to provide strategic guidance, coordinate allocation of resources, monitor and exercise quality control, and ensure consistency in protection</p>

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.

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						analysis and advocacy. Therefore, we suggest that, while the regional structure is not in need of an extensive review - as the authorities, responsibilities and accountabilities of the Regional Representation vis-à-vis the country operations are clear - we do see merit in clarifying notably the delegated authority to the Regional Representative in his engagement with the government authorities in the region.
2	The UNHCR Regional Representation for South Caucasus should: (i) strengthen its analysis of protection related data, and reporting on performance and impact indicators; and (ii) develop modalities, related milestones and monitoring tools to ensure coherent implementation of the regional protection and solutions strategy.	Important	Yes	Regional Protection Officer	(i) Completed September 2017 (ii) March 2018	The recommendation is accepted and we are already taking steps to implement this recommendation: (i) ProGres was deployed in all the three operations by September 2017, thereby allowing for better processing and analysis of protection related data. (ii) As the preparation of the regional results and implementation framework revealed that such document would make sense in relation to a future rather than the existing and soon expiring regional strategy, we are in the process of preparing a revised and updated regional protection and solutions strategy and its implementation framework for the period 2018-2020. This includes the development of a new vision statement, revised strategic objectives, and updated milestones and corresponding implementation and monitoring

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						tools. The conclusion of the process coincides with the submission of the 2018 COP documents.
3	The UNHCR Regional Representation for South Caucasus should review its existing livelihoods strategy, including the considerations for disengagement, and ensure that the residual livelihoods programme is monitored and aligned with the regional strategic plan for integration and that requisite livelihoods expertise and skills are available, commensurate with the financial value and strategic importance of the programme.	Important	Yes	Dep. Reg. Representative Snr. Reg. Programme Officer	March 2018	<p>The recommendation is accepted. The Regional Representation in South Caucasus is in the process of hiring a Socio-Economic Integration Consultant. The Consultant will review the existing livelihoods strategy, including considerations for disengagement, and ensure that the residual livelihoods programs will be aligned with the integration strategies developed for the region and the respective countries. Based on the regional strategy and country specific plans of actions, measures will be taken to secure the necessary expertise and skills.</p> <p>A baseline survey will be developed to serve any future livelihood and integration related interventions. The Consultant will start her work on 15 January 2018 and is expected to deliver a concept for a regional strategy and a set of interim program recommendations by March 2018.</p>
4	The UNHCR Regional Representation for South Caucasus should identify and address the risks associated with implementing cash assistance programmes in the region and, in consultation with the country operations involved, review and revise the existing standard operating procedures to ensure that they incorporate the minimum requirements for	Important	Yes	Snr. Programme Associate ARM Admin/Programme Officer AZN	(i) Feb 2018 (ii) Jan 2018	<p>The recommendation is accepted and we are already taking steps to implement this recommendation:</p> <p>(i) The Armenia operation is finalizing the recruitment of a local expert researcher to conduct the local market assessment that will partly inform the revision of the CBI SOPs. The Consultant will provide the final</p>

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	implementing the programmes, as well as relevant monitoring procedures.					<p>report by January 2018. The office has already obtained inputs from partners and staff related to areas to be revised in the current CBI SOPs. The final revision of the CBI SOPs will be ready for clearance and adoption by February 2018.</p> <p>(ii) The Azerbaijan Operation has already identified areas to be revised in the current CBI SOPs; the revised version will be shared with HQ on 11 December 2017 for clearance and adoption by January 2018.</p> <p>The Azerbaijan office now carries out post distribution monitoring of cash assistance using an online tool to collect the data.</p>
5	The UNHCR Regional Representation for South Caucasus should strengthen management supervision arrangements and staffing capacity over procurement and vendor management and train members of the new Regional Committee on Contracts and staff delegated with supply responsibilities, in order to ensure that vendor performance evaluation procedures are conducted effectively and procurement is conducted in a competitive and transparent manner.	Important	Yes	<p>Associate Admin Officer GEO</p> <p>Sen. Admin Associate ARM</p> <p>Admin/Programme Officer AZN</p>	Completed October 2017	<p>The recommendation is accepted and we consider that appropriate actions have already been taken to fully implement the recommendation for all three operations as the Regional Representation in South Caucasus’s alternate chair, ex-officio, secretary and members of the regional committee on contracts (RCC) successfully completed a training conducted by headquarters from 24 to 26 October 2017. The staff delegated with supply responsibilities have undertaken the online training courses.</p> <p>The respective vendor review committees (VRC) convened and reviewed the vendor performance</p>

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						and competitive and transparent procurement in line with agreed schedules and thresholds in all three operations.
6	The UNHCR Regional Representation for South Caucasus should: (i) establish a systematic methodology for identification and prioritization of risks in the region; and (ii) put in place procedures for monitoring and review of priority risks which should have comprehensive treatment plans.	Important	Yes	Respective ERM Focal Points and Risk Owner	Completed November 2017	The recommendation is accepted and we consider that the appropriate action has already been taken to fully implement the recommendation as the Regional Representation in South Caucasus developed and used standard operating procedures for systematic identification and prioritization of risks as evidenced in the revised risk registers for all three operations. Also available are summary notes of the risk review processes and the comprehensive treatment of priority risks conducted in all three operations according to schedule and action plans.