



INTERNAL AUDIT DIVISION

REPORT 2017/068

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

The Representation needed to address
critical control deficiencies in partnership
management, cash-based interventions and
livelihoods activities

13 July 2017

Assignment No. AR2017/111/02

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

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the Office of the United Nations High Commissioner for Refugees (UNHCR) operations in Somalia. The audit covered the period from 1 January 2015 to 31 December 2016 and included a review of: programme monitoring and reporting; partnership management; cash-based interventions (CBI); livelihoods activities; security and staff safety; staff accommodation; procurement and vendor management; and enterprise risk management.

There was a critical need for the UNHCR Representation in Somalia to strengthen controls over partnership management, CBI, and livelihoods activities. In addition, although the Representation had adequate controls over strategic planning, it needed to strengthen monitoring and reporting of performance data and identify areas where corrective measures may need to be taken. Furthermore, the Representation needed to: (a) strengthen security management arrangements; (b) enhance controls over staff accommodations; (c) improve vendor management and procurement planning; and (d) strengthen risk management procedures.

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

- Collect performance data in a timely manner and identify areas where corrective measures need to be taken;
- Implement an action plan to ensure that risks associated with partnership management are effectively managed, including through appropriate remote monitoring mechanisms and sufficient project control capacity (**CRITICAL**);
- Clear the standard operating procedures for CBI with UNHCR headquarters, open a separate bank account for CBI and submit monthly bank reconciliations for CBI purposes to headquarters, conduct regular monitoring of the CBI programme, request partners to establish adequate procedures and controls for managing CBI projects, and reconcile amounts transferred to partners with the records of cash distributed by partners (**CRITICAL**);
- Develop context-specific livelihoods strategies supported by baseline and market assessments, recruit adequate livelihoods expertise, implement appropriate monitoring mechanisms over livelihoods activities, and prepare a plan to implement the actions recommended by the Livelihoods Unit at headquarters (**CRITICAL**);
- [REDACTED]
- Ensure a fair and equitable allocation of rooms to occupants of staff accommodations, adequate record-keeping of staff accommodations, and proper collection, reporting and utilization of rental income;
- Establish procedures for evaluation of vendor performance, maintenance of vendor files and deactivation of duplicate vendor data, prepare a comprehensive procurement plan, and ensure that payments are reasonable and supported by relevant documentation; and
- Ensure adequate alignment between the risk register and operations plans, prepare risk treatment plans at least for priority risks, and monitor the implementation of treatment plans.

UNHCR accepted the recommendations and has initiated action to implement them.

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

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in Somalia for the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. The UNHCR Representation in Somalia (hereinafter referred to as ‘the Representation’) was established in 2001. As of 31 December 2016, the Representation’s population of concern totalled 1,200,584. This comprised 1,106,751 internally displaced persons (IDPs), 11,574 refugees, 12,794 asylum seekers, and 69,465 returnees. While the refugees and asylum seekers were mainly from Ethiopia and Yemen, the majority of the returnees had arrived from Kenya and Yemen.
3. The role of the Representation was to manage the delivery of services to persons of concern in Somalia in a cost effective manner and in compliance with UNHCR’s policy requirements. These services included, on the basis of the Representation’s strategic prioritization, to: (i) enhance the protection environment of IDPs, with emphasis on comprehensive solutions, social integration, access to basic services, self-reliance, and special needs for displaced communities in Somaliland and Puntland; (ii) improve the protection environment for IDPs and returnees in urban centers in south-central Somalia, including pilot areas for facilitating returns from Kenya; and (iii) improve the protection environment for all persons of concern through the development and enhancement of law and policy in the entire country.
4. The Representation had a Representation Office in Mogadishu, a Support Office in Nairobi, two Sub Offices in Hargeisa and Galkayo, a Field Office in Bosaso, and five Field Units in Baidoa, Dhobley, Garowe, Kismayo and Luug. It was headed by a Representative at the D-1 level. As of 31 December 2016, the Representation had 76 regular posts and 19 affiliate staff. The Representation had total expenditure of \$36.2 million in 2015 and \$48.2 million in 2016. It worked with 31 partners in 2015 and 27 in 2016. The total expenditures of the partners amounted to \$32.1 million in 2016, and accounted for 87 per cent of the Representation’s programme related expenditures during the year.
5. Comments provided by the 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 operations in Somalia.
7. This audit was included in the 2017 risk-based internal audit work plan of OIOS because of risks related to the complexity of the operations in Somalia concurrently dealing with refugees, IDPs and returnees in politically segmented geographical areas whilst the security situation remains very fragile.
8. OIOS conducted this audit from January to April 2017. The audit covered the period from 1 January 2015 to 31 December 2016. Based on an activity-level risk assessment, the audit covered higher risk processes and activities pertaining to the operations in Somalia, which included: programme monitoring and reporting; partnership management; cash-based interventions (CBI); livelihoods activities; security and staff safety; staff accommodation; 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, including financial data from Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system, and performance data from FOCUS, the UNHCR results-based management system; (d) sample testing of controls using systematic and random methods; (e) visits to the Representation Office in Mogadishu, Support Office in Nairobi, Sub Offices in Hargeisa and Galkayo, and the offices of six partners implementing UNHCR projects; and (f) observation of activities implemented at the Coexistence Center for refugees in Hargeisa.

III. OVERALL CONCLUSION

10. There was a critical need for the Representation to strengthen controls over partnership management, CBI and livelihoods activities. In addition, although the Representation had adequate controls over strategic planning, it needed to strengthen monitoring and reporting of performance data and identify areas where corrective measures may need to be taken. Furthermore, the Representation needed to: [REDACTED] (b) enhance controls over the provision of staff accommodations; (c) improve vendor management and procurement planning; and (d) strengthen risk management procedures.

IV. AUDIT RESULTS

A. Programme monitoring and reporting

The Representation needed to strengthen controls over monitoring and reporting of performance data and review the results achieved to identify areas where corrective measures may need to be taken

11. In accordance with the UNHCR Programme Manual, the Representation prepared operations plans for 2015 and 2016 that were aligned with the needs of the population of concern and UNHCR's Global Strategic Priorities. The needs assessment exercises were undertaken by following a participatory approach and conducted for the main population groups in key locations in cooperation with other United Nations agencies and partners. The Representation also developed a protection strategy as part of the operations plans, as well as standard operating procedures (SOPs) for key protection areas.

12. However, the Representation did not establish an impact monitoring plan outlining the methodology for collecting and validating the data for each indicator it had selected. Moreover, the Representation's Key Indicator Reports for 2015 and 2016 did not contain a significant number of indicators, targets, and data showing actual achievements. For example, in the Key Indicator Report for 2016, out of 202 objectives and outputs, 21 did not have indicators and 33 did not have targets. In addition, out of 138 performance indicators, 42 were not collected at the mid-year as required.

13. The main reason for the weaknesses mentioned above was inadequate management prioritization of the need to collect performance data and to review the results achieved. As a result, the Representation was not in a position to identify areas where corrective measures needed to be taken. The situation also increased reputational risk to UNHCR, because donors have access to performance data.

<p>(1) The Representation in Somalia should implement procedures to collect performance data in the FOCUS system in a timely manner and review the results achieved to identify areas where corrective measures may need to be taken.</p> <p><i>UNHCR accepted recommendation 1 and stated that the Representation had prepared an impact monitoring plan and put in place review processes to ensure indicators and targets are adequately</i></p>
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measured and reported on. It was also strengthening its mid-year review by assessing its strategy and implementation, and revising areas of weakness identified. Recommendation 1 remains open pending receipt of: (i) the most recent Key Indicator Report; and (ii) the 2017 mid-year report on the review of results achieved, including actions planned on areas of weakness identified.

B. Partnership management

There was a critical need to strengthen controls over selection and retention of partners, procurement by partners, preparation of project agreements, and monitoring of projects implemented by partners

14. The UNHCR Enhanced Framework for Implementing with Partners requires the Representation to: (i) establish an Implementing Partnership Management Committee (IPMC) to assist the Representative in making partner selection and retention decisions following a transparent procedure; (ii) limit procurement by partners to those occasions where partners have a proven comparative advantage over direct procurement by UNHCR, and conduct an assessment of the partners' capacity to procure goods and services using UNHCR funds; (iii) sign Project Partnership Agreements (PPAs) in December for the subsequent project year; and (iv) ensure that a risk-based project monitoring plan is developed and implemented for each PPA by a multi-functional team consisting of staff from Programme, Project Control and other relevant functions, such as Protection, as well as technical specialists.

15. For selecting and retaining its partners, although the Representation had established an IPMC in October 2013, it had adopted a unique procedure called "UNHCR Somalia Implementing Partner Roster". The original roster prepared in 2013 enlisted 61 partners. A new roster prepared in November 2016 enlisted 67 partners and covered the period from 2017 to 2020. This procedure deviated from the mandatory UNHCR requirements for partner selection in the following respects: (i) the inclusion of a partner in the roster was not based on a specific project; (ii) the Representative delegated to Heads of the Sub Offices and the Field Office the authority to select partners from the roster without any control at the level of the Representation Office; (iii) there was no documentation explaining why certain partners had been selected from the roster, while others in the roster continued not to be selected for any projects; (iv) the validity of the roster was four years, although in line with UNHCR guidance, partners are generally selected for two programme cycles; and (v) IPMC did not consider any governmental institutions with which the Representation worked in the development of the roster. The Representation had not consulted the Implementing Partnership Management Service (IPMS) at headquarters regarding the roster.

16. In addition, although the desk review justifying the retention of partners was conducted for most of the 25 partners retained from 2015 to 2016, IPMC did not play any role in determining whether it was in the best interest of UNHCR to retain them.

17. Although the Representation entrusted procurement to 29 partners in 2015 and 25 in 2016, with cumulative procurement values of \$6.0 million and \$10.4 million respectively, it did not conduct a cost-benefit analysis to determine whether procurement by partners would be more advantageous compared to direct implementation. In addition, the IPMC did not assess the capacity of these partners to undertake procurement on UNHCR's behalf, and the formal approval of the Representative for designating procurement to them was not obtained before signing the PPAs. Further, in 2016, the total value of procurement budgeted in PPAs exceeded \$100,000 for 17 partners, which required them to be pre-qualified by UNHCR headquarters. However, only eight of these partners were prequalified while the other nine were not. The Representation was not aware of the prequalification status of its partners.

18. The conclusion of PPAs was not timely, which resulted in a delay in project implementation. For 2015, of 28 PPAs starting on 1 January 2015 only two were concluded in December 2014 as required. For 2016, of 29 PPAs starting on 1 January 2016, none were concluded in December 2015.

19. The Representation had only one Project Control Officer, who joined in November 2015. Given that 66 PPAs were concluded with 31 partners for 2015 and 51 PPAs were concluded with 27 partners for 2016, and considering the size and complexity of the operations and the high inherent risk of fraud and corruption in the country, UNHCR's commitment to and investment in project control in Somalia was insufficient. OIOS had recommended in its previous audit report on UNHCR operations in Somalia, issued in September 2015 (Report 2015/101), that the Representation needed to re-assess its project control needs and allocate a sufficient number of staff to ensure adequate coverage of monitoring of partners.

20. Regarding project monitoring, OIOS observed that out of the 33 PPAs that started on 1 January 2016 the Representation prepared risk-based monitoring plans for only 14. In addition, although the Representation conducted regular financial monitoring to establish the validity of reported project expenditures, it verified project achievements reported by partners against the agreed targets for only 8 of the 33 PPAs. Performance monitoring was also not systematically linked to the quarterly approval of partners' financial reports. Moreover, the Representation's follow-up on recommendations raised in project audit reports was insufficient as it did not take action to obtain recoveries from 13 partners amounting to \$131,479 as recommended by the external auditor.

21. A recommendation raised in the previous 2015 OIOS report related to the need to enhance remote monitoring procedures was still in progress. Although the Representation had indicated in its earlier progress update to OIOS that it had introduced some remote monitoring techniques such as a call centre and text messaging services to better monitor the return of Somali IDPs to their places of origin, it could not provide any evidence during this audit that such techniques had been used in monitoring of partners. The Representation intended to conclude a memorandum of understanding with a United Nations agency having advanced infrastructure in respect of remote monitoring to build its remote monitoring capacity. OIOS was of the view that implementation of the earlier audit recommendation had been too slow given its importance to the operational context in Somalia.

22. The main reason for the cited control deficiencies was inadequate management attention to the need to implement robust partnership management procedures, in line with the significant project risks that the Representation was exposed to. As a result, the Representation was exposed to the risk of failure to achieve the intended project objectives. OIOS observed a number of deficiencies related to CBI and livelihoods projects implemented by partners, which had been caused by control deficiencies in the Representation's partnership management. These will be discussed in more detail later in this report.

(2) The UNHCR Representation in Somalia should implement an action plan to ensure that: (i) risks associated with selection and retention of partners, designation of procurement authority to partners, preparation of Project Partnership Agreements, and monitoring of partners, including through remote mechanisms, are effectively managed; and (ii) there is sufficient project control capacity to provide support for oversight of project activities.

UNHCR accepted recommendation 2 and stated that in respect of the use of the UNHCR Somalia Implementing Partner Roster, the Representation had conducted consultations with IPMS and had been granted a waiver by IPMS. The Representation also enhanced its project control capacity by training multi-functional teams in all offices in relevant project control aspects, and submitted a request for the recruitment of another Project Control Associate. Recommendation 2 remains open pending of receipt of: (i) evidence to show that the cost-benefit analysis and assessment of partner capacity related to procurement by partners have been conducted; (ii) clarification of the

prequalification status of all partners whose value of procurement with UNHCR funds exceeds \$100,000; (iii) monitoring plans for all PPAs; (iv) a sample of recent performance monitoring reports to verify partners' performance against targets, including through remote monitoring techniques; (v) evidence of recovery of funds from 13 partners amounting to \$131,479; and (vi) results of a comprehensive assessment of project control capacity needs, and confirmation of implementation of the action plan to strengthen project control capacity.

C. Basic needs and services

There was a critical need to strengthen controls over cash-based interventions

23. The UNHCR policies and guidance for CBI require the Representation to: effectively plan and design its CBI programme based on a risk assessment and assessment of the feasibility of such a programme; develop programme-specific SOPs governing the beneficiary selection criteria, value of cash transfers, and operational, financial and protection-related controls; and monitor the performance of the interventions and evaluate their impact. In the case of CBI implemented by partners, the Representation is required to ensure that partners establish operational procedures and financial controls for CBI in accordance with UNHCR policies, and to reconcile the amounts transferred to partners and the records presented by partners as evidence of funds distributed.

24. In 2015 and 2016, the Representation distributed \$5.5 million and \$13.4 million respectively to persons of concern, mainly to facilitate the voluntary return of IDPs and Somali refugees from Kenya to their places of origin. Of these amounts, 7 partners in 2015 and 12 in 2016 distributed \$5.2 million and \$12.7 million respectively. The CBI expenditure represented 22 per cent of the total UNHCR expenditure in Somalia during the audit period. The Representation had undertaken a risk assessment and a feasibility assessment to implement the CBI programme. However, OIOS observed the following weaknesses:

- Although the Representation prepared programme-specific SOPs covering CBI through direct implementation, they were not cleared by UNHCR headquarters before being implemented, as required. Consequently, the SOPs did not cover some of the minimum requirements such as for opening of a separate bank account for CBI purposes.
- For directly implemented CBI, the Representation did not have a separate bank account for transfer of money to beneficiaries, as required. As a result, monthly bank reconciliations of amounts disbursed for CBI purposes were not submitted to headquarters as part of the month-end financial reporting package.
- The Representation had not undertaken any monitoring or post-distribution activities of the CBI process, although its SOPs required monitoring to be carried out through various specified means within 7 days of payment based on a sample of 5 to 10 per cent of beneficiaries.
- Partners involved in CBI had not established procedures, selection criteria and financial controls for CBI in accordance with UNHCR policies and in consultation with the Representation. Therefore, key controls such as tracking, recording and reporting of transactions, provision of distribution statistics, and monitoring during and after distributions were not designed.
- The Representation did not reconcile the amounts transferred by the Representation to partners against the records presented by partners as evidence of funds distributed.

25. The shortcomings cited above were due to inadequate oversight arrangements over the CBI procedures. The Representation stated that this was because it did not have dedicated CBI personnel to oversee the implementation of the programme, and it was in the process of recruiting a CBI Officer while two support staff had already been trained on CBI. However, OIOS was of the opinion that, given the high amounts involved and the fraud-prone environment in Somalia, the Representation had been taking an

unacceptable level of risk due to the lax controls. Because of the lack of monitoring, in particular post distribution monitoring, the Representation had not assessed whether the CBI programme had the desired impact and whether there had been any negative effects, including financial losses through fraud.

(3) The UNHCR Representation in Somalia should strengthen the management of its cash-based interventions (CBI) by: (i) clearing the standard operating procedures for CBI with headquarters; (ii) opening a separate bank account for CBI and submitting monthly reconciliations to headquarters; (iii) conducting regular monitoring of the CBI programme; (iv) requesting partners to establish adequate procedures, selection criteria and financial controls for CBI; and (v) reconciling amounts transferred to partners with the records of cash distributed by partners.

UNHCR accepted recommendation 3 and stated that the Representation had obtained clearance from headquarters for the SOPs on CBI and opened a separate bank account for CBI purposes. Recommendation 3 remains open pending receipt of evidence of: (i) systematic submission of monthly bank reconciliations to headquarters; (ii) regular monitoring of the CBI programme (including post-distribution monitoring); (iii) establishment of criteria and financial controls for partner-implemented CBI projects; and (iv) regular reconciliation between amounts transferred to partners and records of cash distributed by them.

There was a critical need to adequately plan and monitor the livelihoods activities

26. The UNHCR Operational Guidelines on the Minimum Criteria for Livelihoods Programming require the Representation to: (i) conduct a socio-economic baseline assessment and a market assessment before implementing livelihoods programmes; (ii) develop a context-specific livelihoods strategic plan, assess the capacity and impact of livelihoods partners, and have dedicated livelihoods expertise; and (iii) monitor the performance and evaluate the impact of its livelihoods programme.

27. The Representation's livelihoods expenditure during the audit period totalled \$6.2 million, or seven per cent of the total expenditure of the Somalia operations. Livelihoods programmes were based on cash grants and vocational trainings and implemented in four locations. The Representation worked with eight livelihoods partners during 2015 and 2016. OIOS visited five partners and reviewed their livelihoods project documents, physically observed livelihood activities conducted in Hargeisa, and met with beneficiaries of cash grants.

28. The review indicated that the Representation had not: (i) conducted the socio-economic baseline assessment and market analysis necessary for the implementation of livelihoods programmes for its Mogadishu operation which accounted for 65 per cent of the total livelihoods expenditure for the period under review; (ii) developed a three to five year context-specific livelihoods strategy; (iii) ensured the availability of dedicated livelihoods expertise, although its livelihoods programme budget exceeded the threshold of \$1million stipulated by the Operational Guidelines; (iv) conducted an assessment of its livelihoods partners to ensure they had the relevant experience to implement livelihoods projects; and (v) sufficiently monitored partners implementing livelihoods activities.

29. The Representation had also not implemented the recommendations emanating from the Minimum Criteria Compliance Assessment conducted by the Livelihoods Unit at headquarters. The recommendations included the need to suspend livelihoods operations in Mogadishu and Bosaso effective 1 January 2017 in case the recommended actions were not implemented. The Representation was required to complete a detailed Compliance Plan and submit it to the Bureau for Africa, with a copy to the Livelihoods Unit, by 2 December 2016. However, such a Compliance Plan was not prepared.

30. The above deficiencies, which OIOS considered critical, occurred because of the lack of management attention to establishment of a sound system of controls over planning and monitoring of the livelihoods interventions. This was particularly concerning given the high amounts involved and the fact that the Livelihoods Unit had already earlier raised reservations about the implementation of livelihoods activities in Somalia. The deficiencies exposed the Representation to a significant risk of waste of resources in the implementation of livelihoods programmes, with persons of concern remaining dependent on UNHCR support for an extended period of time.

(4) The Representation in Somalia should: (i) develop context-specific livelihoods strategies supported by baseline and market assessments; (ii) recruit adequate livelihoods expertise; (iii) implement appropriate monitoring mechanisms over livelihoods activities; and (v) prepare a plan to implement the actions recommended by the Livelihoods Unit.

UNHCR accepted recommendation 4 and stated that the Representation had recruited a Livelihoods Officer and a Livelihoods Associate covering the entire country. A context-specific livelihoods strategy, supported by socio-economic baseline and market assessments would be finalized by December 2017. Implementation of appropriate monitoring mechanisms over livelihoods activities was underway. Recommendation 4 remains open pending receipt of: (i) the context-specific livelihoods strategic plan supported by socio-economic baseline and market assessments; (ii) results of the assessment of the capacity of current livelihoods partners; (iii) a sample of recent monitoring reports on partners implementing livelihoods projects; and (iv) the plan prepared on the implementation of actions recommended by the Livelihoods Unit.

D. Security and staff safety

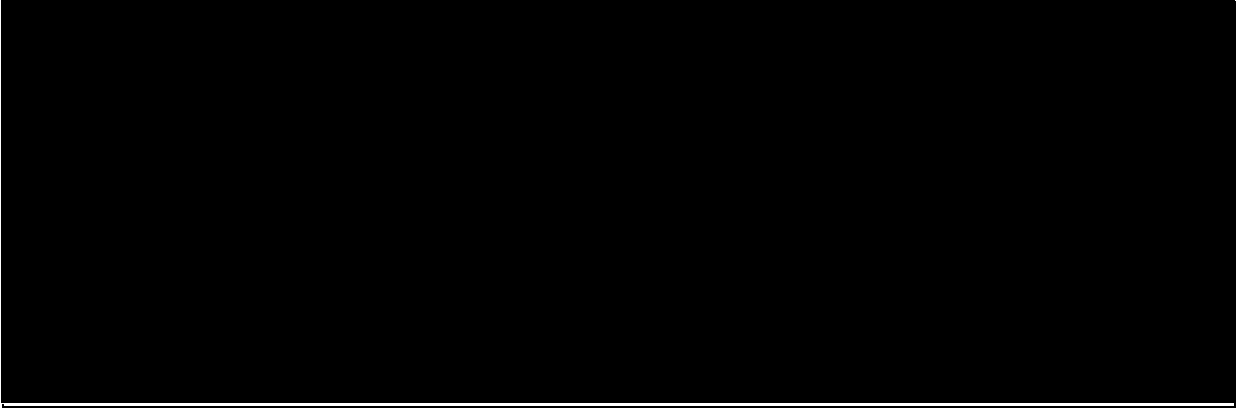
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E. Staff accommodation

The Representation needed to strengthen control arrangements over staff accommodations

35. The UNHCR Policy and Administrative Instruction on staff accommodation require the Representation to ensure that: (i) staff accommodation in the field meets the minimum standards on living conditions; (ii) staff accommodation is properly managed and maintained; and (iii) rental income from staff accommodation is accurately collected, accounted for, and reported.

36. The Representation recognised staff accommodation income of \$65,947 and \$79,080 respectively for 2015 and 2016. It had staff accommodations in six locations in Somalia. OIOS reviewed the staff accommodation documentation and visited staff accommodations in Galkayo, Mogadishu and Hargeisa with a combined total rental income of \$52,347 in 2015 and \$70,296 in 2016. The review identified the following deficiencies:

- The Representation had not developed written procedures to ensure a fair and equitable allocation of rooms to occupants.
- The offices visited did not maintain adequate and complete records for monitoring of occupants' stay in UNHCR staff accommodation. For example, details such as guest lists, rental payment calculations, and check-in and check-out records were not available in Mogadishu.
- The Representation had not systematically collected the correct amount of rent from occupants. For example in Mogadishu, during 2015, international staff from other United Nations agencies paid varying rates of \$10, \$70 and \$90 per day instead of the required rate of \$38. In addition, cash rental income was not promptly banked, resulting in increased risk of misappropriation. In all three offices visited, rental income was only recorded when it was settled.

37. These deficiencies occurred because the Representation had not established adequate arrangements over staff accommodation. As a result, the health and wellbeing of staff members were exposed to adverse situations, and rental income was not adequately collected and accounted for.

(6) The UNHCR Representation in Somalia should strengthen controls, including management supervision arrangements, over the provision of staff accommodations to ensure: (i) a fair and equitable allocation of rooms to occupants; (ii) adequate record-keeping on the use of the accommodations; and (iii) collection, accounting, and reporting of rental income.

UNHCR accepted recommendation 6 and stated that all offices in Somalia receiving cash for accommodation had started to promptly deposit it with a bank through a money vendor. Other

actions to address the recommendation were ongoing. Recommendation 6 remains open pending receipt of: (i) procedures related to the fair and equitable allocation of rooms to occupants; (ii) evidence of maintenance of complete records for occupants; (iii) evidence that rental revenue is recognized when earned; (iv) evidence of prompt banking of rental revenue received in cash; and (v) a sample of recent monthly reports on rental income.

F. Procurement and vendor management

There was a need to enhance vendor management, procurement planning and controls over payments for services procured

38. UNHCR procurement rules and procedures require the Representation to: (i) establish an effective vendor management system; (ii) prepare an annual procurement plan; (iii) implement competitive and transparent bidding procedures through tendering; and (iv) ensure adequate oversight over the procurement activities through a Local Committee on Contracts (LCC).

39. The Representation's Vendor Review Committee, established in May 2015 and subsequently updated, met 13 times during the audit period to review the suitability of new vendors. However, the Committee did not evaluate the performance of vendors, as required by UNHCR procedures. In addition, vendor files were not maintained for any of the active vendors, and the vendor database consisting of 455 approved vendors contained six duplicate vendor accounts.

40. OIOS reviewed the procurement procedures put in place by the Representation, including through review of the minutes of all LCC meetings held and detailed testing of 32 purchase orders worth \$3.0 million from the total procurement volume of \$7.9 million between January 2015 and December 2016. OIOS noted that the Representation generally adhered to the UNHCR procurement rules and procedures, and waivers for competitive bidding were granted for justified purposes. Nevertheless, OIOS review indicated that the Representation's annual procurement plan for 2016 did not include the estimated costs for 11 goods and services listed in the plan. In addition, the payment for security escort services did not appear reasonable and was not supported by necessary information. The Representation paid \$72,308 in August 2016 for such escort services provided in Hargeisa and Bosaso for the period from May 2015 to April 2016. However, the per diem was paid for all days in each month, including weekends, and the payment vouchers did not contain the necessary information, such as the destination of the field trip, date, number of staff in the trip, the purpose of the field trip, and signature of the staff.

41. The above weaknesses resulted from: (i) lack of training provided to members of the Vendor Review Committee to enable them to fulfil their tasks including the evaluation of vendor performance; and (ii) the Representation not obtaining accurate and timely information needed for the preparation of the annual procurement plan and the payment of security escort services. Consequently, there was a risk of engaging non-performing vendors and not procuring goods and services in a timely manner.

(7) The UNHCR Representation in Somalia should: (i) establish procedures for evaluation of vendors' performance, maintenance of vendor files, and deactivation of duplicate vendor data; (ii) prepare a comprehensive procurement plan containing the budgeted costs; and (iii) ensure that payments for security escort services are reasonable and amounts paid are supported by relevant documentation.

UNHCR accepted recommendation 7 and stated that the Representation had started to prepare complete files for vendors registered since 1 April 2017. Review of the vendor database had commenced. The procurement plan was being revised. Recommendation 7 remains open pending

receipt of: (i) evidence of the conduct of regular performance evaluations of vendors and deactivation of duplicate vendor data; (ii) the revised procurement plan; and (iii) evidence of reasonable payment of per diems to special protection units supported by relevant documentation.

G. Enterprise risk management

There was a need to strengthen procedures related to risk identification, treatment and monitoring

42. In order to effectively manage risks to its operational objectives, UNHCR's ERM Framework requires the Representation to: (i) understand its operational context; (ii) identify its key risks; (iii) analyze and evaluate these risks; (iv) develop and implement a plan to treat the risks; (v) monitor and report on the risk management processes; and (vi) ensure that the processes are communicated and that relevant key staff are effectively trained and consulted.

43. The Representation's Operations Plans for 2015 and 2016 provided sufficient information on the operational context in Somalia as the basis for risk identification. In addition, the Representation's risk register was widely shared and distributed across managers and staff in the operations. Moreover, risk management focal points had been designated and trained. Nevertheless, OIOS observed weaknesses in the existing arrangements for risk management. Firstly, the logic used in risk identification and analysis was not always clear. For example, the Representation's risk register did not reflect any concrete risks related to the uncertainty caused by the magnitude of returnee inflow from Kenya to Somalia. Secondly, the Representation's treatment plans did not specify to which staff or units the implementation of risk treatments had been assigned, even for priority risks. Finally, the Representation did not monitor the implementation of treatment plans in a systematic and documented way. This was a requirement for priority risks, in accordance with the ERM Framework.

44. The main reason for the deficiencies cited above was that key personnel in the Representation, despite the training activities provided, were still not sufficiently familiar with the requirements of the ERM Framework. As a result, identified risks had not been mitigated as expected.

(8) The UNHCR Representation in Somalia should: (i) ensure adequate alignment between its risk register and its operations plans; and (ii) prepare treatment plans specifying target dates and responsible staff at least for priority risks; and (iii) monitor the implementation of treatment plans.

UNHCR accepted recommendation 8 and stated that: (i) the Representation would ensure alignment between the risk register and the operations plans; and (ii) milestones attached to priority risks would be agreed upon, and their treatments would be assigned to risk champions to implement. Recommendation 8 remains open pending the receipt of: (i) evidence of better alignment between the risk register and the operations plan; (ii) treatment plans specifying target dates and responsible staff for priority risks; and (iii) evidence of monitoring of the treatment plans for priority risks.

V. ACKNOWLEDGEMENT

45. OIOS wishes to express its appreciation to the management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Somalia 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 Representation in Somalia should implement procedures to collect performance data in the FOCUS system in a timely manner and review the results achieved to identify areas where corrective measures may need to be taken.	Important	O	Submission to OIOS of: (i) the most recent Key Indicator Report; and (ii) the 2017 mid-year report on the review of results achieved, including actions planned on areas of weakness identified.	31 August 2017
2	The UNHCR Representation in Somalia should implement an action plan to ensure that: (i) risks associated with selection and retention of partners, designation of procurement authority to partners, preparation of Project Partnership Agreements, and monitoring of partners, including through remote mechanisms, are effectively managed; and (ii) there is sufficient project control capacity to provide support for oversight of project activities.	Critical	O	Submission to OIOS of: (i) evidence to show that the cost-benefit analysis and assessment of partner capacity related to procurement by partners have been conducted; (ii) clarification of the prequalification status of all partners whose value of procurement with UNHCR funds exceeds \$100,000; (iii) monitoring plans for all PPAs; (iv) a sample of recent performance monitoring reports to verify partners' performance against targets, including through remote monitoring techniques; (v) evidence of recovery of funds from 13 partners amounting to \$131,479; and (vi) results of a comprehensive assessment of project control capacity needs, and confirmation of implementation of the action plan to strengthen project control capacity.	31 July 2017
3	The UNHCR Representation in Somalia should strengthen the management of its cash-based interventions (CBI) by: (i) clearing the standard operating procedures for CBI with headquarters; (ii) opening a separate bank account for CBI and	Critical	O	Submission to OIOS of evidence of: (i) systematic submission of monthly bank reconciliations to headquarters; (ii) regular monitoring of the CBI programme (including post-distribution monitoring); (iii) establishment	31 August 2017

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Somalia 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
	submitting monthly reconciliations to headquarters; (iii) conducting regular monitoring of the CBI programme; (iv) requesting partners to establish adequate procedures, selection criteria and financial controls for CBI; and (v) reconciling amounts transferred to partners with the records of cash distributed by partners.			of procedures, criteria and financial controls for partner-implemented CBI projects; and (iv) regular reconciliation between amounts transferred to partners and records of cash distributed by them.	
4	The Representation in Somalia should: (i) develop context-specific livelihoods strategies supported by baseline and market assessments; (ii) recruit adequate livelihoods expertise; (iii) implement appropriate monitoring mechanisms over livelihoods activities; and (v) prepare a plan to implement the actions recommended by the Livelihoods Unit.	Critical	O	Submission to OIOS of: (i) the context-specific livelihoods strategic plan supported by socio-economic baseline and market assessments; (ii) results of the assessment of the capacity of current livelihoods partners; (iii) a sample of recent monitoring reports on partners implementing livelihoods projects; and (iv) the plan prepared on the implementation of actions recommended by the Livelihoods Unit.	31 August 2017
6	The UNHCR Representation in Somalia should strengthen controls, including management supervision arrangements, over the provision of staff accommodations to ensure: (i) a fair and equitable allocation of rooms to occupants; (ii) adequate record-keeping on the use of the accommodations;	Important	O	Submission to OIOS of: (i) procedures related to the fair and equitable allocation of rooms to occupants; (ii) evidence of maintenance of complete records for occupants; (iii) evidence that rental revenue is recognized when earned; (iv) evidence of prompt banking of rental revenue	31 August 2017

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Somalia 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
	and (iii) collection, accounting, and reporting of rental income.			received in cash; and (v) a sample of recent monthly reports on rental income.	
7	The UNHCR Representation in Somalia should: (i) establish procedures for evaluation of vendors' performance, maintenance of vendor files, and deactivation of duplicate vendor data; (ii) prepare a comprehensive procurement plan containing the budgeted costs; and (iii) ensure that payments for security escort services are reasonable and amounts paid are supported by relevant documentation.	Important	O	Submission to OIOS of: (i) evidence of the conduct of regular performance evaluations of vendors and deactivation of duplicate vendor data; (ii) the revised procurement plan; and (iii) evidence of reasonable payment of per diems to special protection units supported by relevant documentation.	31 August 2017
8	The UNHCR Representation in Somalia should: (i) ensure adequate alignment between its risk register and its operations plans; and (ii) prepare treatment plans specifying target dates and responsible staff at least for priority risks; and (iii) monitor the implementation of treatment plans.	Important	O	Submission to OIOS of: (i) evidence of better alignment between the risk register and the operations plan; (ii) treatment plans specifying target dates and responsible staff for priority risks; and (iii) evidence of monitoring of the treatment plans for priority risks.	31 July 2017

APPENDIX I

Management Response

Management Response

Audit of the operations in Somalia 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 Representation in Somalia should implement procedures to collect performance data in the FOCUS system in a timely manner and review the results achieved to identify areas where corrective measures may need to be taken.	Important	Yes	Senior Programme Officer	31/08/2017	<p>a) An impact monitoring plan for the entire Somalia operation has been prepared systematically outlining sources of data, frequency of data collection, mechanisms for validating the data and responsibilities for these tasks for each impact indicator within the operation. This has been shared with all field offices in Somalia operation for review and comments before adoption in 2017.</p> <p>b) 2017 indicator report will be ready after mid-year reporting on 15 July 2017 and the final version after Year-end reporting on 15 February 2018.</p> <p>c) The country office has put in place review processes to ensure indicators and targets are adequately measured and reported on. For the 2016 year-end indicator reporting, remarkable progress had been made. In line with the reported results from the field and partners, all impact and performance indicators have been populated and reported on as required. This process will be sustained as an integral part of the country operations' implementation, monitoring and reporting.</p> <p>d) The office is strengthening the mid-year review process by regularly assessing and reviewing the strategy and implementation, identifying areas in need of improvement and through re-prioritization when required.</p> <p>e) As part of the standard process, the office will conduct mid and year-end review of results achieved to identify areas where corrective measures need to be taken. Mid-year review for 2017 will be completed by end of August 2017 and the end-year review will be</p>

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² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

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

Recommendation no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						undertaken by end of February 2018, as per UNHCR reporting guidelines and set deadlines.
2	The UNHCR Representation in Somalia should implement an action plan to ensure that: (i) risks associated with selection and retention of partners, designation of procurement authority to partners, preparation of Project Partnership Agreements, and monitoring of partners, including through remote mechanisms, are effectively managed; and (ii) there is sufficient project control capacity to provide support for oversight of project activities.	Critical	Yes	Project Control Officer	31 July 2017	<p>a) The office will implement the recommendations as stipulated. However as regards to the use of a partner roster, the operation submitted a written waiver request to the Implementing Partnership Management Service at HQ and has received approval to implement a partner roster. Implementing Partner Management Committee (IPMC) at country level will monitor the implementation of the partner roster at sub offices' level by consistently reviewing the criteria used to select partners.</p> <p>b) A cost-benefit analysis and assessment of partner capacity related to procurement by partners will be conducted and will ensure that non-qualified partners will not be authorized to conduct procurement using UNHCR funds.</p> <p>c) Decisions will be documented, adhering to stipulated guidelines and relevant consultations with IPMS are done.</p> <p>d) Discussions have been undertaken with the Food and Agricultural Organization (FAO) Somalia to partner with UNHCR and to use their remote monitoring infrastructure inside Somalia to monitor UNHCR interventions. The agreement was duly signed by UNHCR but encountered delays with FAO owing to the abrupt departure of the FAO Representative. Follow-up has been made. It is notable that FAO's M&E function is adequately staffed and has a strong footprint all over Somalia. FAO has monitoring processes/systems for activities such as cash for work, post-distribution monitoring and follow-up for NFIs, a fully-fledged call center and a roster of third</p>

Management Response

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

Recommendation no.	Recommendation	Critical/ ¹ / Importan t ²	Accepted? (Yes/No)	Title of responsible individual	Implementa tion date	Client comments
						<p>party monitors. FAO also has a network of undercover field monitors, who are deployed in hard to reach insecure areas.</p> <p>e) The office will further enhance its project control capacity. As of mid-May 2017, the office initiated a request for recruitment of another Project Control Associate in Mogadishu and the candidate is expected to arrive by end of June 2017. Multi-functional teams in all offices have been trained on risk management, project monitoring, prevention of fraud and corruption, and in other project control areas. This training has already been conducted in Galkayo, Somaliland/Hargeisa and Bosaso. These MF teams will work closely with the project control team to achieve control objectives set by the office for the Somalia operation.</p>
3	<p>The UNHCR Representation in Somalia should strengthen the management of its cash-based interventions (CBI) by:</p> <p>(i) clearing the standard operating procedures for CBI with headquarters; (ii) opening a separate bank account for CBI and submitting monthly reconciliations to headquarters; (iii) conducting regular monitoring of the CBI programme; (iv) requesting partners to establish adequate procedures, selection criteria and financial controls for</p>	Critical	Yes	Cash Based Interventions Officer	30 June 2017	<p>a) The SOP on CBI implementation has been reviewed by CBI Unit and DFAM at HQ and was approved on 29 June 2017.</p> <p>b) A separate bank account dedicated to CBI transactions, has already been opened with the Standard Chartered bank in Nairobi.</p> <p>c) UNHCR is implementing CBI directly in line with the organizational CBI strategy and the HC's recommendation. Therefore SOP for Partners is NOT applicable.</p> <p>d) It is commonly acknowledged that impact monitoring, which covers the longer-term impacts including beyond the duration of the project, fall under the domain of evaluation and will not be included in monitoring. Monitoring of CBI will cover both outputs and outcomes, including mid-term outcomes such as the households' ability to cover their basic needs and use their cash grant.</p>

Management Response

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

Recommendation no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	CBI; and (v) reconciling amounts transferred to partners with the records of cash distributed by partners.					e) Monthly reconciliations of CBI transactions on the dedicated bank account are being conducted at the close of every month starting June 2017. CBI open items are reconciled.
4	The Representation in Somalia should: (i) develop context-specific livelihoods strategies supported by baseline and market assessments; (ii) recruit adequate livelihoods expertise; (iii) implement appropriate monitoring mechanisms over livelihoods activities; and (v) prepare a plan to implement the actions recommended by the Livelihoods Unit.	Critical	Yes	Livelihoods Officer	31 August 2017	<p>a) Context-specific livelihoods strategy, supported by socio-economic baselines and market assessments will be developed and finalized by December 2017 and will be ready for use in 2018.</p> <p>b) The Representation has recruited a Livelihoods Officer and Livelihoods Associate, currently based in Mogadishu and covering the entire country. The Livelihoods Officer joined the operation in April 2017.</p> <p>c) Implementation of appropriate monitoring mechanisms over livelihoods activities is underway. Relevant indicators and tools were developed and field-tested in early 2017 to improve monitoring of livelihoods programmes more broadly, and the Somalia Representation will be using these to monitor its livelihoods activities. The attachment provides an overview of specific partners, programmes and indicators which will be monitored this year. By December 2017, a customized survey will be deployed on a mobile-based platform for baseline and end-line data collection.</p> <p>d) The livelihoods minimum criteria compliance assessment interviews are currently underway, which annually measure the Representation's fulfilment of criteria related to sound livelihoods programming (including development of a context-specific livelihoods strategy, socio-economic assessment and market analysis). Please see 2016 results in the attached compliance plan. Following the 2017 assessment to be conducted in July 2017, an updated plan for implementation of actions recommended by the</p>

Management Response

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

Re c o m m e n d a t i o n	Recommendation	Critical/ Importan t ²	Accept ed? (Yes/N o)	Title of responsible individual	Implementa tion date	Client comments
						livelihoods unit duly developed for the Representation will be shared by August 2017. The Representation will subsequently complete sections of the plan detailing next steps for implementation.
[Redacted content]						
6	The UNHCR Representation in Somalia should strengthen controls, including management supervision arrangements, over the provision of staff accommodations to ensure: (i) a fair and equitable	Important	Yes	Senior Finance and Administration Officer	31 August 2017.	The Representation has already started the process of strengthening controls in the provision and management of accommodation through: (a) Flexible allocation of the available rooms as the staff members join the operation in Somalia, taking into consideration the staff members' special needs and preferences as much as possible.

Management Response

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

Recommendation no.	Recommendation	Critical/ ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	allocation of rooms to occupants; (ii) adequate record-keeping on the use of the accommodations; and (iii) collection, accounting, and reporting of rental income.					<p>(b) The operation is developing procedures for recording guests which can be cross referenced to the rental income received for all guests. Check in and check out registers will be established and maintained in each office. As stipulated in the UNHCR procedure for recording revenue from the use of UNHCR accommodations, all offices' rental revenue will always be recognized when earned as opposed to when the accounts are settled.</p> <p>(c) Offices which receive cash for accommodation have started to deposit rental revenues received in cash with Standard Chartered Bank through Amal which is the money vendor representing Standard Chartered Bank. The office will monitor receipts and deposit of cash on monthly basis. For all UN international staff on mission, a standard rate of 35% of the prevailing DSA rate of the specific area is being applied as per policy on UNHCR provided accommodation. This process will be closely monitored, settled and reported on a timely basis. The Senior Admin Finance Officer is leading the development of the guidelines.</p>
7	The UNHCR Representation in Somalia should: (i) establish procedures for evaluation of vendors' performance, maintenance of vendor files, and deactivation of duplicate vendor data; (ii) prepare a comprehensive procurement plan containing the budgeted costs; and (iii) ensure that payments for security escort services are reasonable and amounts paid	Important	Yes	Supply Officer	31 August 2017	<p>The Representation accepts the recommendation and confirms that:</p> <p>(a) A new Vendor Review Committee (VRC) has been composed with most of the members from the Supply unit. This will ensure close monitoring and interest in the exercise as they are directly involved with the vendors.</p> <p>(b) The VRC Secretary, who is a Supply Associate, has opened new and complete files for vendors being registered since 1st April 2017. The files include registration forms, any correspondence with the vendors, vendor evaluation reports among other key documents. The Secretary is responsible for maintenance of such files.</p>

Management Response

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

Rec. no.	Recommendation	Critical/ Importan t ²	Accept ed? (Yes/N o)	Title of responsible individual	Implementa tion date	Client comments
	are supported by relevant documentation.					<p>(c) Complete review of the vendor database has commenced by the VRC which will culminate in a de-activation exercise. Thorough checks are now being done by the Supply Officer and Vendor approvers to ensure no duplicate entry is created.</p> <p>(d) The current procurement plan is being reviewed and revised accordingly to include all requirements ranging from direct implementation and those under implementation of vendors.</p>
8	The UNHCR Representation in Somalia should: (i) ensure adequate alignment between its risk register and its operations plans; and (ii) prepare treatment plans specifying target dates and responsible staff at least for priority risks; and (iii) monitor the implementation of treatment plans.	Important	Yes	Project Control Officer	31 July 2017	<p>The Representation accepts the recommendation and confirms that:</p> <p>a) The operation is in the process of aligning the risk register and the operation plans, and it regularly evaluates risks to ensure that existing and emerging risks are accounted for;</p> <p>b) The operation fully delegates the task of following up, monitoring, communicating and updating the risk register to the Project Control Officer who provides quarterly updates to the management. Risks are now continuously monitored with operational oversight for the consolidated risk register assigned to the Project Control Unit, which regularly notifies champions and updates the register as necessary;</p> <p>c) Training on risk management is being organized in all offices inside Somalia, to enable common understanding and appreciation of risk management.</p> <p>d) Milestones attached to specific risks are being discussed, agreed upon and assigned to risk champions.</p>