



INTERNAL AUDIT DIVISION

REPORT 2019/126

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

While national and sub-national coordination structures were functioning, improvements were needed to streamline inter-agency coordination, strengthen civil-military coordination and monitor projects funded by the Yemen Humanitarian Fund

**17 December 2019
Assignment No. AN2019/590/02**

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the operations of the Office for the Coordination of Humanitarian Affairs (OCHA) in Yemen. The objective of the audit was to determine whether the OCHA Yemen office delivered its mandate in an efficient and effective manner in line with OCHA's strategic objectives. The audit covered the period from 1 January 2017 to 30 June 2019 and included: (a) coordination of the humanitarian response in Yemen; (b) management of the Yemen Humanitarian Fund (YHF); and (c) management of staff and other resources allocated to the Office.

The Yemen Humanitarian Country Team (HCT) and the Inter-Cluster Coordination Mechanism met regularly, and sub-national structures were established to complement the national coordination mechanism. However, improvements were needed to streamline inter-agency coordination, strengthen civil-military coordination and monitor projects funded by YHF.

OIOS made 10 recommendations. To address issues identified in the audit:

OCHA Yemen needed to:

- Support the Humanitarian Coordinator (HC) to streamline governance of humanitarian coordination in Yemen to minimize overlapping roles and responsibilities;
- Strengthen its support to the HC and HCT through enhanced situational analyses, leading to improved policy and advocacy support on civil-military coordination;
- Formally evaluate the performance of the third-party monitoring service provider for the Yemen humanitarian response plan;
- Strengthen procedures for detecting implementing partner irregularities relating to exchange rates used for translating local currency-based transactions during financial spot checks;
- Apply the operational modalities for monitoring projects consistently, take steps to ensure that United Nations partners are scored for their compliance with requirements to submit financial and narrative reports on time and take appropriate action for non-compliance;
- Conduct regular testing of the business continuity plan to minimize the risk of disruptions from unforeseen adverse events; and
- Designate a senior-level official as the focal point on prevention of sexual exploitation and abuse for its operations in Yemen, to give the issue adequate strategic and operational priority.

OCHA needed to:

- In support of the HC and in collaboration with the Inter-Agency Standing Committee partners, initiate a humanitarian evaluation in Yemen to measure the impact of the response to date and identify lessons learned to help make a greater impact on the affected populations;
- Approach the Controller to evaluate accounting policy options in International Public Sector Accounting Standard 4 on the impact of changes in foreign exchange rates in operations where there is a lack of foreign currency exchangeability when using official exchange rates; and
- Clarify the process of reporting all complex fraud allegations involving implementing partners to OIOS Investigations Division, to facilitate independent investigations where necessary.

OCHA accepted the recommendations, implemented two of them and initiated action to implement the remaining.

CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	2
III. AUDIT RESULTS	3-12
A. Coordination of the humanitarian response in Yemen	3-7
B. Management of the Yemen Humanitarian Fund	7-11
C. Management of resources allocated to the OCHA Office in Yemen	11-12
IV. ACKNOWLEDGEMENT	12
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations of the Office for the Coordination of Humanitarian Affairs (OCHA) in Yemen.

2. OCHA is responsible for bringing together humanitarian actors to ensure a coherent response to emergencies. By its resolution 46/182 dated 19 December 1991, the General Assembly created OCHA as a part of the United Nations Secretariat to further strengthen and make more effective the collective humanitarian efforts of the United Nations system in responding to complex emergencies and natural disasters in countries in need. The mission of OCHA is to: (a) coordinate the global humanitarian response to save lives and protect people in humanitarian crises; and (b) advocate for effective and principled humanitarian action.

3. The humanitarian crisis in Yemen was declared an Inter-Agency Standing Committee (IASC) Level 3 emergency in July 2015, and that designation still held as of June 2019. The crisis was driven primarily by war, which resulted in displacement, severe food shortages and deterioration of health services among other challenges. The 2019 Yemen Humanitarian Response Plan (HRP) was therefore focused on reducing hunger, outbreaks of infectious diseases and the risk of displacement and violence against civilians, as well as protecting internally displaced persons and preserving the capacity of public sector institutions to deliver life-saving basic services. The 2018 HRP targeted assistance for 13.1 million people, 11.3 million of whom were in acute need, out of a total of 22.2 million people in need inside Yemen. The number of people targeted for assistance in 2019 increased to 21.4 million as the crisis continued to worsen, with increased displacement, disease outbreaks and food shortages. The requirements and total funding received since 2017 are presented in Table 1.

Table 1

Humanitarian Response Plan requirements and funding (in billions of United States dollars)

	2017	2018	2019
Total requirements	2.34	3.11	4.19
Funding received (2019 as of 30 June 2019)	1.76	2.63	1.18
Coverage	75%	85%	28%

4. The OCHA Yemen office (the Office) was established in 2010, and supports the Humanitarian Coordinator (HC) in her leadership of both strategic and operational response to the humanitarian crisis in Yemen through: (a) bringing together leaders of humanitarian organizations active in Yemen into the Humanitarian Country Team (HCT) to plan and implement the response to the humanitarian crisis; (b) coordinating humanitarian assistance, as appropriate, with national and local authorities; (c) coordinating the work of clusters at the national and sub-national levels, including through coordinated humanitarian needs assessments, strategic response planning, implementation and monitoring; (d) facilitating access to people in need of humanitarian assistance; (e) advocating for the protection of affected people and compliance with International Humanitarian Law by the parties to the armed conflict; and (f) managing the Yemen Humanitarian Fund (YHF).

5. The Office had 111 approved posts and a budget of \$15.8 million for 2019 for its main office in Sana'a and the operational hubs/support offices in Al Hudaydah, Ibb, Sa'ada, Aden, Amman and Riyadh.

6. During 2017 and 2018, the YHF was funded through voluntary contributions from 31 donors amounting to \$384 million. Contributions to the YHF grew from \$22 million in 2014 to \$205 million in 2018. As of 30 June 2019, donors have contributed \$110 million to the fund. In 2017, 2018 and 2019 (up to June), the Fund allocated \$428 million to implementing partners for 298 humanitarian projects. Nearly a third of the funds were allocated to national non-governmental organizations (NGOs) as shown in Table 2.

Table 2
Allocations from YHF (in millions of United States dollars)

	<i>2017</i>	<i>2018</i>	<i>2019*</i>	<i>Total</i>
United Nations	22.9	87.0	40.9	150.8
National NGOs	51.4	49.3	31.5	132.2
International NGOs	49.6	48.5	39.5	137.4
Red Cross/Red Crescent Movement	2.0	3.4	2.0	7.4
Total	125.9	188.2	113.9	427.8

Source: CBPF Grant Management System

*Up to June 2019

7. Central Emergency Response Fund allocations to Yemen amounted to \$25.6 million, \$49.9 million and \$31.7 million in 2017, 2018 and 2019 (up to June) respectively. The funds were allocated to various priority needs such as famine and response to outbreaks of communicable diseases.

8. Comments provided by OCHA are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to determine whether the OCHA Yemen office delivered its mandate in an efficient and effective manner in line with OCHA's strategic objectives.

10. The audit took place during June to August 2019 and was carried out in New York, Sana'a and Amman. The audit covered the period 1 January 2017 to 30 June 2019. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the OCHA Yemen operations, which included: (a) coordination of the humanitarian response in Yemen; (b) management of the YHF; and (c) management of staff and other resources allocated to the Office.

11. The audit was conducted as part of an ongoing coordinated audit by some members of the United Nations Representatives of Internal Audit Services. The overall objectives of the coordinated audit are to provide assurance on the effectiveness of United Nations' (a) humanitarian response governance systems for Yemen operations; and (b) inter-agency humanitarian programme cycle processes, including needs assessment and analysis, strategic planning and implementation and monitoring of humanitarian activities.

12. The audit methodology included: (a) interviews of key personnel, (b) review of relevant documentation, (c) analytical review of data, and (d) sample testing of selected transactions

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

III. AUDIT RESULTS

A. Coordination of the humanitarian response in Yemen

While national and sub-national coordination structures were established, there was a need to streamline governance of humanitarian coordination

14. In line with the IASC guidance for humanitarian country teams, the Yemen HCT, which is chaired by the HC, was established to ensure that humanitarian action in Yemen is coordinated, principled, timely, effective and efficient, and contributes to longer-term recovery.

15. OCHA provided secretariat support to the HCT, chaired the Inter-Cluster Coordination Mechanism (ICCM), and supported the nine national clusters in strategic response planning, monitoring and reporting of the humanitarian response. The coordination mechanisms at the national level were complemented by sub-national structures that were supported by the OCHA hub offices. Each operational hub had Regional Coordination Teams (RCTs) that reported to the ICCM, except for Aden hub that had an Area HCT. The OCHA heads of sub-offices led coordination at the hub-level.

16. OCHA also led the multi-cluster location assessment, which supplemented the cluster planning tools and assessments, to inform the humanitarian needs overview and HRP. Over the years, the HRP has become more granular and targeted through, for example identification of people in need and the severity of their needs at the district rather than at the governorate level, resulting in more effective humanitarian interventions. OIOS concluded that the national and sub-national coordination structures were established and were facilitating humanitarian needs assessment, planning and monitoring.

17. Although the ICCM met regularly, several interviewees indicated that inter-cluster coordination and analysis needed to be strengthened, as the clusters had remained largely siloed. At its retreat held in March 2019, the ICCM also made recommendations for OCHA to enhance its support as it worked on improving its own functioning, including through potentially streamlining its working groups and task forces, and through the adoption of a revised planning approach that was recently approved by the IASC to encourage more inter-cluster collaboration.

18. An Emergency Cell was established in Yemen as a mechanism to “provide policy and strategic guidance for the emergency response”. It was chaired by the HC, with membership from heads of United Nations agencies, OCHA and the Department of Safety and Security. Unlike the HCT, the meetings of the Emergency Cell were informal and not minuted. Decisions made in the Emergency Cell were presented to the HCT for endorsement, as the HCT still served as the formal decision-making authority for the country-level humanitarian action. However, interviewees indicated that the Emergency Cell had evolved into a de facto HCT, as its objectives were generally similar to those of the HCT, which was at times considered too large and diverse. OIOS reviewed a sample of HCT meeting minutes and noted that sometimes there were as many as 44 attendees, including multiple representatives from individual agencies (e.g., OCHA had nine attendees in one meeting). Considering that the HCT is designed to be a strategic entity with senior-level membership at the country representative level, the HC should consider streamlining attendance at its meetings to ensure that it remained lean yet inclusive of the United Nations, international and national NGOs. If implemented effectively, streamlining the HCT may negate the need for the Emergency Cell and the structures described below that support it (with due consideration for security and confidentiality).

19. An Emergency Operations Room with direct reporting to the Emergency Cell was established in Sana’a to provide support to the Al Hudaydah Emergency Operations Team (EOT). It was tasked with overseeing the implementation of the Al Hudaydah response and providing timely situational updates

considering the evolving situation in the city, including the establishment of a new United Nations monitoring mission. The Emergency Operations Room had representation from United Nations and international NGO staff with coordination and logistics roles. An Operations Centre was also established in Sana'a in April 2019 to deal with operational issues in Northern Yemen in support of the Emergency Cell. It met once a week and was chaired by OCHA. Similar to the Emergency Cell, there was some level of duplication between the tasks undertaken by the Emergency Operations Room, Al Hudaydah EOT and the Operations Centre on the one hand and RCTs/Area HCT and the Humanitarian Access Working Group (HAWG) on the other.

(1) OCHA Yemen should support the Humanitarian Coordinator to streamline governance of humanitarian coordination in Yemen to minimize overlapping roles and responsibilities.

OCHA accepted recommendation 1 and stated that the HCT had endorsed the functional overview of roles and responsibilities between the Operations Centre, ICCM and HAWG, which clarified the activities of each coordination body. Recommendation 1 remains open pending receipt of evidence of implementation of a streamlined governance over the humanitarian coordination in Yemen.

An inter-agency humanitarian evaluation of the humanitarian response was long overdue

20. The Humanitarian Programme Cycle reference module provides for two modalities for assessing the Inter-Agency Humanitarian response after the declaration of an L3 emergency. Operational Peer Reviews should be undertaken within three months of the declaration, while Inter-Agency Humanitarian Evaluations (IAHE) are expected within 12 months.

21. In Yemen, the Operational Peer Review was done in November 2015, and some of the lessons learned from that review have been implemented, such as streamlining humanitarian leadership for the crisis and scaling up of in-country presence by humanitarians. However, no IAHE has been conducted to date, some four years after the L3 emergency was declared. The primary reason for the delay was concern over the security situation in Yemen.

22. The humanitarian response in Yemen has grown markedly from 2015 to 2018. Total funding for the HRP, for example, increased nearly three-fold from \$885.3 million in 2015 to \$2.49 billion in 2018, with further growth expected in 2019. The Yemen HRPs for 2017 to 2019 prioritized life-saving assistance and protection to address the most acute needs (first line response), but also allocated resources to quasi-developmental activities designed to support resilient livelihoods and strengthen infrastructure in priority districts (known as “humanitarian plus” in 2018 HRP, or “full-cluster response” in 2019 HRP). Activities included rehabilitating healthcare infrastructure, training medical personnel and paying incentives to public service employees conducted by various partners. Such activities were considered necessary in some cases to address the root causes of emergencies within the crisis; for example, rehabilitating public water systems had the potential of reducing the risk of further cholera outbreaks. In the meantime, however, the number of people in need and the complexity of their needs kept growing from year to year.

23. Conducting an IAHE is therefore imperative to assess the impact of humanitarian programming on affected populations and help facilitate the necessary adjustments to the response based on any identified lessons learned.

(2) OCHA should, in support of the Humanitarian Coordinator and in collaboration with the Inter-Agency Standing Committee partners, initiate an inter-agency humanitarian evaluation in Yemen to measure the impact of the response to date and identify lessons learned to help make a greater impact on the affected populations.

OCHA accepted recommendation 2 and stated that the IAHE Steering Group (comprising the United Nations, Red Cross and NGO evaluation directors) had approved the conduct of an IAHE in Yemen, which the Emergency Relief Coordinator would soon launch officially. Recommendation 2 remains open pending receipt of documentation showing the initiation of an IAHE of the humanitarian response in Yemen.

OCHA needed to strengthen civil-military coordination structures within Yemen

24. The United Nations Civil-Military Guidelines and Reference for Complex Emergencies provides for the formulation of country-specific operational guidelines on civil-military relations and identifies OCHA as the custodian of such guidelines. The policy instruction on OCHA roles and responsibilities in humanitarian civil-military coordination also emphasised that civil-military coordination is a core component of OCHA's coordination mandate to facilitate a coherent and consistent approach by humanitarians to relationships with military actors.

25. While the HC was being advised by two civilian-military coordinators, there was no comprehensive Yemen-wide strategy and guidelines on civil-military coordination that included civil-military matters, deconfliction, access negotiations, running the United Nations civil-military coordination training programme and building relationships with local communities and parties to the conflict to cultivate acceptance of humanitarian operations and for information sharing. Instead, a piecemeal approach was in place that involved:

(a) The establishment of a Deconfliction Liaison Team (DLT) that is based in Riyadh, Saudi Arabia. The DLT developed guidelines and tools for deconfliction with the Saudi-Led Coalition, which, based on interviews with various humanitarians in Yemen, have been working mostly as intended, especially as the crisis in Yemen has become more protracted. The deconfliction is managed through the OCHA Office in Riyadh, whose head, at the P-5 level, reports directly to the OCHA Yemen Head of Office. The Office acts as a conduit to notify the Kingdom of Saudi Arabia's Evacuation and Humanitarian Operations Committee of humanitarian personnel movements, sea movements of humanitarian cargo, humanitarian flights and permanent secure sites, and communicate feedback to humanitarian organizations.

(b) The hub office in Al Hudaydah had a Civil-Military Coordination Officer at the P-4 level. However, according to discussions with OCHA, civil-military coordination in Al Hudaydah had not yet been fully rolled out because of security constraints, the specific requirements of the post and the lack of traditional militaries with which to engage. OCHA however planned to have a Civil-Military Coordination Officer at the P-4 level stationed at the Aden hub from October 2019, with responsibility to cover southern Yemen, including engaging with the military under the command of the internationally recognized government.

26. In most of northern Yemen, some of the civil-military coordination roles were undertaken by the Access and Deconfliction Unit, which coordinated with other humanitarians through the HAWG. The HAWG was established in Sana'a with an objective to "ensure a safe, unimpeded and sustainable access to affected people in Yemen." It fulfilled this objective through: (a) monitoring and analyzing access data; (b) developing an advocacy strategy and key messages on humanitarian access; (c) facilitating access through deconfliction and other mechanisms; and (d) training humanitarian partners and local actors on International Humanitarian Law and humanitarian principles. A sub-national HAWG was also established in the Aden hub.

27. All OCHA hub offices had a Humanitarian Affairs Officer responsible for access, in addition to the Civil-Military Officers outlined above. The absence of the traditional civil-military coordination in most of

northern Yemen was attributed to restrictions by the de facto authorities on conversations with the military structures. The National Authority for the Management and Coordination of Humanitarian Affairs served as an intermediary for all contact with the de facto authorities, both government ministries and military leadership. Through interviews and review of monitoring reports, OIOS noted that access challenges, including those caused by security and bureaucratic impediments, were one of the biggest threats to humanitarian programming in Yemen. For example, a project was terminated early as the implementing partner could not reach an agreement with the de facto authorities on its implementation.

(3) OCHA Yemen should strengthen its support to the Humanitarian Coordinator and Humanitarian Country Team through enhanced situational analyses, leading to improved policy and advocacy support on civil-military coordination.

OCHA accepted recommendation 3, stating that the analytical capacity of the Humanitarian Access Unit had been strengthened with two staff and, as of the first week of October 2019, a civil-military coordinator had been stationed in Aden to provide direct support to the humanitarian community. Based on the actions taken by OCHA, recommendation 3 has been closed.

OCHA needed to evaluate the performance of the third-party monitoring service provider

28. The Kingdom of Saudi Arabia and the United Arab Emirates provided a block grant of \$930 million through OCHA to fund the 2018 Yemen HRP, with the World Food Programme receiving nearly half of the grant (\$442.8 million). Under the terms of the block grant, OCHA was expected to coordinate third-party monitoring (TPM) of programmes delivered through the grant. The objective of the TPM was to “verify project outputs and activities reported by the Yemen HRP implementing partners by directly observing progress made in field locations across Yemen.” The 2019 HRP also indicated that OCHA would conduct the 2019 HRP monitoring through an independent third-party monitor. Prior to 2018, periodic monitoring reports on the HRP were based on self-reported information from the clusters, therefore the TPM represented an improvement in that it provided for independent verification of cluster-level results on a sample basis.

29. OCHA worked with the Purchase and Transportation Section (PTS) in the United Nations Office at Geneva to procure the services of a TPM service provider. PTS entered into a non-exclusive contract with a Jordan-based TPM service provider in November 2018 for a one-year term and a contract value of \$87,900. The contract was awarded at a value that was significantly lower than the original budget of \$1.06 million and the average value of qualifying bids of \$477,461. Because of concerns that the low valuation of the winning bid may have reflected a lack of understanding of the scope of services required, OCHA raised strong objections to the contract being awarded to the winning vendor. Consequently, OCHA initially proposed to PTS that the threshold score for the technical evaluation be revised upwards (which would have disqualified the winning bidder), and that the contract be awarded to multiple vendors. This was rejected by PTS as out of the 11 bidders who passed the technical evaluation, the winning bidder had placed 7th and had also received satisfactory references. The bidder had, however, been placed first overall in the commercial evaluation, winning in each of the five categories established in the source selection plan.

30. In discussion with OCHA, one of the root causes for the challenges faced during the procurement process was that not enough time was dedicated to drafting the terms of reference. The process was rushed to get the contract in place in time for the vendor to start monitoring activities in October 2018. Actual monitoring was however not started until 2019.

31. The TPM service provider initially struggled to fulfil its contractual obligations as they were not properly registered in Yemen and faced challenges to access project sites. These challenges were resolved through sub-contracting arrangements with two other TPM service providers, including one Yemeni-based

service provider that had not submitted a bid for the original contract but served as the primary TPM service provider for projects funded by the YHF.

32. The TPM final monitoring report was delivered in April 2019 in accordance with the contract, covering 109 out of the targeted 111 districts. The TPM service provider reported that, overall, the United Nations agencies and implementing partner reports were largely consistent with the humanitarian assistance delivered on the ground. OCHA was however not satisfied with the services provided by the service provider as OCHA had to provide the firm with considerable support to complete the monitoring. OCHA indicated that the relationship with the firm would likely be terminated through mutual agreement by both parties. However, a formal appraisal of the TPM firm's performance had not been conducted as required by the United Nations procurement manual. Such an appraisal would not only prevent the service provider from being rehired by the United Nations if appropriate but would also provide feedback to PTS to enable it to provide guidance to avoid the recurrence of the challenges faced in the procurement process.

(4) OCHA Yemen should formally evaluate the performance of the third-party monitoring service provider for the Yemen humanitarian response plan in accordance with the requirements of the United Nations procurement manual.

OCHA accepted recommendation 4, stating that it would evaluate the vendor's performance and that it was planning on conducting another procurement exercise for an additional TPM to comply with donors' requests for such exercises. Recommendation 4 remains open pending receipt of a copy of the performance evaluation of the TPM.

B. Management of the Yemen Humanitarian Fund

OCHA needed to strengthen procedures for detecting implementing partner irregularities during financial spot checks

33. Under the terms of its grant agreement with implementing partners, OCHA engaged external audit firms to conduct audits of project financial statements for all completed projects in accordance with International Standards on Auditing. The project financial statements were prepared in United States dollars (presentation currency), although some expenditures were incurred in the local currency, the Yemeni Rials (the implementing partners' functional currency).

34. The external auditors expressed qualified audit opinions on 9 out of the 36 project financial statements audited between January 2017 and July 2019 primarily due to exchange rate irregularities that resulted in material misstatement of project expenditure. The grant agreement required implementing partners to use "the most favorable official rate of exchange for all transactions related to the implementation of the project". OCHA also required its implementing partners to convert United States dollar receipts into Yemeni Rials at the official exchange rate with one preferred banking institution in Yemen as needed, to pay for expenditures denominated in the local currency. However, due to the significant differences between the official exchange rate and the parallel market rates, some implementing partners converted their foreign currency at the prevailing parallel market rates, while recording the transactions at the official exchange rates and not disclosing the resulting exchange gains on their financial statements. In one example, an implementing partner reported total project expenditure of \$739,737, of which \$576,477 had been incurred in the local currency and converted to the reporting currency using official exchange rates. However, the external audit found that this expenditure had been overstated by \$77,676 because the implementing partner had transferred funds from its foreign currency account to its local currency account using more favorable parallel market foreign exchange rates. The implementing partner was therefore required to return the \$77,676 to OCHA.

35. The aggregate value of the exchange rate irregularities for projects with qualified or adverse opinions was \$413,426, or approximately 10 per cent of the \$4,350,244 disbursed to those projects. While many of the implementing partners denied using parallel foreign exchange markets, evidence found by the external auditors disproved those assertions. In one project, however, the independent auditors had completed their audit and issued a qualified report to OCHA on the basis of exchange rate irregularities, but later issued a revised, unqualified audit report after OCHA Yemen intervention. OCHA headquarters should review such interventions that lead to changes in audit opinions to ensure that they do not compromise the independence of the external auditors, thus limiting their effectiveness as a key control.

36. Several implementing partners, in their responses, pointed out that OCHA had insisted on them using the official exchange rate for financial reporting purposes. That, however, did not preclude them from reporting on the actual exchange rates realized to ensure true and fair financial statement presentation. None of these irregularities had been picked up during OCHA's financial spot checks, which may have minimized the overall financial impact of the irregularities because financial spot checks are conducted earlier, while projects are being implemented, as compared to external audits that are conducted after project completion. OCHA explained that it only initiated financial spot checks in Yemen in early 2018.

37. In response to the audit findings, OCHA temporarily suspended further allocations and disbursements to at least one implementing partner but reinstated them after deciding that they had acted in good faith. Some of the affected implementing partners received additional funding for new projects from OCHA after the issuance of the qualified audit reports.

38. The parallel foreign currency market, although technically illegal, was virtually accepted across the board in Yemen, as there was long-term lack of foreign currency exchangeability at the official exchange rate. For example, the partners would not be able to source foreign currency at official exchange rates if they needed to refund to OCHA any left-over Yemeni Rials. Consequently, it was not entirely unexpected that implementing partners would want to maximize realized value of receipts by using the parallel market, since goods and services in the local currency were priced with consideration of these exchange rates that closely reflected the Yemeni Rial's purchasing power parity relative to the United States dollar. OCHA has operations in other countries where there is widespread use of parallel markets, which may by default be the only active foreign exchange markets in the affected countries. As a result, there may be more implementing partners overstating their expenditure by reporting at the official rates while transacting at parallel market rates. The risk is higher in countries with a higher parallel market premium. OCHA would therefore benefit from performing an analysis of such potential losses and approaching the Controller to evaluate accounting policy options in International Public Sector Accounting Standard 4 on the impact of changes in foreign exchange rates in similar environments. The conclusions of the International Accounting Standards Board on the applicability of International Accounting Standard 21 in such contexts, which may also be affected by hyperinflation, would also be useful in evaluating accounting policy options.

(5) OCHA Yemen should strengthen procedures for detecting implementing partner irregularities relating to exchange rates used for translating local currency-based transactions during financial spot checks.

OCHA accepted recommendation 5, stating that it had been conducting workshops to strengthen the financial spot check tool. OCHA Yemen noted however that the design of financial spot checks did not include analysis of exchange rates used against daily market rates. Recommendation 5 remains open pending receipt of documentation showing procedures implemented to detect exchange rate irregularities during financial spot checks.

(6) OCHA should approach the Controller to evaluate accounting policy options in International Public Sector Accounting Standard 4 on the impact of changes in foreign exchange rates in operations where there is a lack of foreign currency exchangeability when using official exchange rates.

OCHA accepted recommendation 6 and stated that it would approach the Controller accordingly. Recommendation 6 remains open pending receipt of the Controller's position on the matter.

OCHA was addressing past recommendations relating to external audits of completed projects

39. The OCHA Country Based Pooled Fund (CBPF) handbook requires audits to be conducted within two months of implementing partners' final financial reports being cleared by OCHA.

40. Review of the 10 implementing partners with the highest number of completed or ongoing audits for projects funded since 2017 indicated that the median time to complete an audit was 265 days (approximately 9 months) from the date of clearance of the final financial reports by OCHA. Five of the implementing partners had a "high" current partner risk, while four were "medium" and one was low risk. In addition to the exchange rate related issues noted above, audits also found that a number of implementing partners did not have adequate insurance coverage (which may expose OCHA to claims from third parties). At least one implementing partner was temporarily suspended as a direct result of audit findings. OCHA explained that since June 2018, it had entered into long-term agreements with five audit companies for its four global regions. This had helped to clear the backlog of audit reports in the majority of the CBPFs and reducing the delays in conducting audits, with some exceptions due to local security, access or similar issues.

41. Additionally, OCHA indicated that it was still reviewing options for insurance requirements in conflict zones (report number 2018/045 on an audit of operations of OCHA in the occupied Palestinian territory) and the possibility of adopting a risk-based approach to auditing implementing partners instead of the current practice of auditing every project (report number 2014/078, audit of OCHA managing agent role for the Somalia Common Humanitarian Fund). In view of this, OIOS did not make a recommendation on these matters.

OCHA needed to clarify its process of informing OIOS of complex fraud allegations

42. According to the Anti-Fraud and Anti-Corruption Framework, OIOS has overall responsibility for conducting investigations into serious or complex fraud in the Secretariat. OCHA entered into system contracts with external audit firms in 2018 that included provisions for forensic audit services.

43. As of audit date, one YHF implementing partner was the subject of a forensic audit over undisclosed allegations of procurement fraud from an undisclosed source. Under the terms of the task order for the forensic audit, the audit firm was expected to provide oral briefings and written reports on their findings directly to OCHA. The scope of work included "identifying any embezzlement of funds by implementing partner staff, or any other acts of collusion with OCHA, vendors and/or other parties," which could present conflicts of interest for OCHA. The extent to which the forensic audit had progressed at the time of the OIOS audit was not clear. It was also not clear whether the forensic auditors had accessed any United Nations records or personnel as part of their investigation into possible acts of collusion with OCHA.

44. OCHA indicated that OIOS Investigations Division had been informed and had endorsed the arrangement for forensic audits. However, there was no evidence that OCHA was informing OIOS Investigations Division of the initiation and outcome of specific forensic audits, including any involvement of staff in unsatisfactory conduct, to facilitate subsequent independent investigations where necessary.

(7) OCHA should clarify the process of reporting all complex fraud allegations involving implementing partners to OIOS Investigations Division, to facilitate independent investigations where necessary.

OCHA accepted recommendation 7, stating that it provides all relevant information related to complex fraud allegations to OIOS Investigations Division and that all alleged fraudulent activities involving United Nations staff are referred immediately and directly to OIOS for independent investigation. These cases are not subject to forensic audit and if an ongoing forensic audit identifies potential United Nations staff involvement, the matter would also be referred immediately to OIOS. Recommendation 7 remains open pending receipt of documentation showing application of the process described.

There was a need for stricter monitoring of projects implemented by United Nations partners

45. While United Nations partners are considered low risk and are exempt from external audit requirements, the 2018 YHF Operational Manual provides that projects implemented by them must also be scored to assess future funding decisions and frequency of monitoring.

46. Most of the interim financial reports that were due (i.e., 21 of the 24) as of 11 July 2019 for the 18 projects from the 2018 allocations were received generally on time. The three interim financial reports that were late (by an average of 30 days) were projects implemented by United Nations partners. The final narrative report for one of these projects, which was due on 30 April 2019, had not been received as of 11 July 2019 (two others, both from United Nations partners, that were due at this date were received on time). This United Nations partner also received an assessment of "no performance" in a project field monitoring visit conducted by OCHA in 12 December 2018 in two locations, and yet the partner continue to receive YHF grants.

47. OIOS observed the same pattern as regards progress narrative reports. Of the 20 progress narrative reports that were due as of 11 July 2019, 16 were for projects implemented by NGO partners and 15 were received generally on time (one project was received 30 days late). Four other projects that were received late (by an average of 56 days) were from those implemented by United Nations partners. There was no monitoring visit conducted for a project implemented by a United Nations partner, where one should have been conducted in accordance with the operational modalities.

48. OIOS also observed that the review of over half (i.e., 12 out of 20) of progress narrative reports were not completed promptly (averaging about 60 days from receipt of report to completion of review). The Head of the Humanitarian Financing Unit explained that some of the delays in reviewing the reports were due to prioritization of activities related to allocations and addressing partners' performance issues.

(8) OCHA Yemen should apply the operational modalities for monitoring projects consistently, take steps to ensure that United Nations partners are scored for their compliance with requirements to submit financial and narrative reports on time and take appropriate action for non-compliance.

OCHA accepted recommendation 8 and stated that OCHA Yemen monitors United Nations partner-implemented projects above \$5 million and unjustified non-compliance with reporting requirements would affect the agency's performance rating and therefore, future allocations. Recommendation 8 remains open pending receipt of evidence that United Nations partners' compliance with the requirements to submit financial and narrative reports are appropriately reflected in their performance rating.

C. Management of resources allocated to the OCHA Office in Yemen

The business continuity plan had not been tested

49. Within the framework of the United Nations Organizational Resilience Management System, OCHA country offices were expected to prepare and regularly test business continuity plans (BCPs) to maintain the continuity of critical functions in emergencies or other disruptive events, while ensuring the health, safety and security of staff and their dependents and protecting assets.

50. The Office had a BCP in place since November 2017. However, there was no evidence that any simulations had been conducted to test the country office's readiness to respond to critical events. The Office explained that a prior incident had allowed them to test the BCP, but there was no documentation of the test or any lessons learned from the incident to ensure continuity of critical operations. A revised BCP had been drafted and was undergoing review at headquarters.

(9) OCHA Yemen should conduct regular testing of the business continuity plan to minimize the risk of disruptions from unforeseen adverse events.

OCHA accepted recommendation 9 and stated that OCHA Yemen conducted a BCP simulation exercise on 8 September 2019 and an action plan was developed to address gaps. The next exercise would take place in September 2020. Recommendation 9 remains open pending receipt of documentation showing regular testing of BCP.

OCHA needed to designate a senior official as the focal point for the prevention of sexual exploitation and abuse

51. In order to ensure that protection from sexual exploitation and sexual abuse (PSEA) is addressed at a sufficiently senior level as required by the related Secretary-General's bulletin (ST/SGB/2003/13), the OCHA standard operating procedures on PSEA designated the OCHA Head of Office as the field-based PSEA focal point, with the Deputy Head of Office or a nominated senior staff member acting as alternates.

52. The OCHA Yemen PSEA focal point was, however, a national staff at the NO-A level. PSEA was therefore not being addressed at the appropriate level of seniority. Such an arrangement could result in PSEA not being given sufficient priority, thus reducing effectiveness of OCHA's support to the Yemen HC and HCT on PSEA matters. OCHA agreed that gender issues were very complex in Yemen, thus the involvement of senior officials was even more important to effectively prevent sexual exploitation and abuse, detect instances of non-compliance and respond to any complaints that are received by OCHA.

53. The OCHA Yemen PSEA focal point is a member of the inter-agency PSEA Network that was established in 2017. Since its establishment, the network has been working on developing standard operating procedures for a community-based complaints mechanism in line with IASC best practices, and with consideration of the national context. As of audit date, the mechanism had not yet been rolled out.

(10) OCHA Yemen should designate a senior-level official as the focal point on prevention of sexual exploitation and abuse for its operations in Yemen, to give the issue adequate strategic and operational priority.

OCHA accepted recommendation 10 and stated that the Head of OCHA Yemen Office had designated one Deputy Head of Office as the PSEA focal point and another as alternate. Based on documentation provided, recommendation 10 has been closed.

OCHA completed staff performance evaluations timely

54. Each office is expected to complete performance evaluations of staff by 30 June of each year in accordance with the administrative instruction on the performance management and development system (ST/AI/2010/5). The date was extended to 31 July 2019 for the 2018/19 cycle.

55. As of mid-August 2019, 92 per cent of OCHA Yemen staff had completed their performance appraisals for 2018/19. The completion rate for the 2017/18 cycle was 91 per cent. OIOS concluded that overall completion of OCHA staff performance appraisals was adequate.

IV. ACKNOWLEDGEMENT

56. OIOS wishes to express its appreciation to the management and staff of OCHA 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 of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	OCHA Yemen should support the Humanitarian Coordinator to streamline governance of humanitarian coordination in Yemen to minimize overlapping roles and responsibilities.	Important	O	Submission of evidence of implementation of a streamlined governance over the humanitarian coordination in Yemen such as the revised terms of reference of the coordination bodies and HCT minutes endorsing them.	31 December 2020
2	OCHA should, in support of the Humanitarian Coordinator and in collaboration with the Inter-Agency Standing Committee partners, initiate an inter-agency humanitarian evaluation in Yemen to measure the impact of the response to date and identify lessons learned to help make a greater impact on the affected populations.	Important	O	Submission of documentation showing the initiation of an IAHE of the humanitarian response in Yemen.	30 April 2020
3	OCHA Yemen should strengthen its support to the Humanitarian Coordinator and Humanitarian Country Team through enhanced situational analyses, leading to improved policy and advocacy support on civil-military coordination.	Important	C	Action completed.	31 December 2019
4	OCHA Yemen should formally evaluate the performance of the third-party monitoring service provider for the Yemen humanitarian response plan in accordance with the requirements of the United Nations procurement manual.	Important	O	Submission of a copy of the performance evaluation of the TPM.	30 September 2020
5	OCHA Yemen should strengthen procedures for detecting implementing partner irregularities relating to exchange rates used for translating local currency-based transactions during financial spot checks.	Important	O	Submission of documentation showing procedures implemented to detect exchange rate irregularities during financial spot checks.	31 December 2020

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 OCHA in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
6	OCHA should approach the Controller to evaluate accounting policy options on International Public Sector Accounting Standard 4 on the impact of changes in foreign exchange rates in operations where there is a lack of foreign currency exchangeability when using official exchange rates.	Important	O	Submission of the Controller's position on the matter.	31 December 2020
7	OCHA should clarify the process of reporting all complex fraud allegations involving implementing partners to OIOS Investigations Division, to facilitate independent investigations where necessary.	Important	O	Submission of documentation showing application of the process of reporting to OIOS Investigations Division of complex fraud allegations against implementing partners.	31 December 2020
8	OCHA Yemen should apply the operational modalities for monitoring projects consistently, take steps to ensure that United Nations partners are scored for their compliance with requirements to submit financial and narrative reports on time and take appropriate action for non-compliance.	Important	O	Submission of evidence that United Nations partners' compliance with the requirements to submit financial and narrative reports are appropriately reflected in their performance rating.	31 December 2020
9	OCHA Yemen should conduct regular testing of the business continuity plan to minimize the risk of disruptions from unforeseen adverse events.	Important	O	Submission of documentation showing regular testing of BCP.	31 December 2020
10	OCHA Yemen should designate a senior-level official as the focal point on prevention of sexual exploitation and abuse for its operations in Yemen, to give the issue adequate strategic and operational priority.	Important	C	Action completed.	22 August 2019

APPENDIX I

Management Response

United Nations  Nations Unies
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Ms. Muriette Lawrence-Hume, Chief
A: New York Audit Service,
Internal Audit Division, OIOS

DATE: 2 December 2019

THROUGH:
S/C DE:

REFERENCE:

FROM: Mark Lowcock, ~~Under-Secretary-General~~ for
DE: Humanitarian Affairs and Emergency Relief
Coordinator

SUBJECT: **Draft report on an audit of the operations of the Office**
OBJET: **for the Coordination of Humanitarian Affairs in**
Yemen (Assignment NO: 2019/590/02)

In reference to your memorandum dated 31 October 2019, I am enclosing herewith OCHA's management response to the draft report and the recommendations issued.

Copy to: Ms. Menada Wind-Andersen, Executive Officer, OCHA

Management Response

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical/ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OCHA Yemen should support the Humanitarian Coordinator to streamline governance of humanitarian coordination in Yemen to minimize overlapping roles and responsibilities.	Important	Yes	Head of Office	December 2020	On 11 November, the HCT endorsed the functional overview of roles and responsibilities between the Operations Centre, the Inter Cluster Coordination Mechanism, and the Humanitarian Access Working Group. By defining the roles and responsibilities and having them endorsed by the HCT, enables streamlining, prior to this exercise and endorsement, the perception was of overlapping coordination structures and activities. The functional overview allows for clarity as to what activities each coordination body needs to do.
2	OCHA should, in support of the Humanitarian Coordinator and in collaboration with the Inter-Agency Standing Committee partners, initiate an inter-agency humanitarian evaluation in Yemen to measure the impact of the response to date and identify lessons learned to help make a greater impact on the affected populations.	Important	Yes	Emergency Relief Coordinator upon advice of the Inter-Agency Humanitarian Evaluation Steering Group (IAHE-SG)	By April 2020	OCHA has referred the OIOS recommendation to conduct an IAHE of the humanitarian response in Yemen to the Inter-Agency Humanitarian Evaluation (IAHE SG) Steering Group. The Steering Group have already approved the proposal. The evaluation will soon be officially launched by the Emergency Relief Coordinator.

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.

APPENDIX I

Management Response

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
3	OCHA Yemen should strengthen its support to the Humanitarian Coordinator and Humanitarian Country Team through enhanced situational analyses, leading to improved policy and advocacy support on civil-military coordination.	Important	Yes	Head of Office	December 2020	The analytical capacity in OCHA sits with the Humanitarian Access Unit. In order to provide greater analytical capacity to the Unit, two staff previously under Field Coordination are now part of the Access Unit. This restructuring that provides for greater human resources and headed by a P4 Head of Access Unit strengthens the support recommended. Further, the P4 is directly responsible to a P5 Head of Field Coordination (see attached updated organigramme). Additionally, as of the first week of October 2019, a civil-military coordinator is based in Aden to provide direct support to the humanitarian community.
4	OCHA Yemen should formally evaluate the performance of the third-party monitoring service provider for the Yemen humanitarian response plan in accordance with the requirements of the United Nations procurement manual.	Important	Yes	OCHA EO (procurement)/OCHA Yemen Pool Fund and/CBPF (HQ)	30 September 2020	OCHA will conduct a Vendor Performance Evaluation of the TPM firm's performance in accordance with the requirements of the United Nations procurement manual. OCHA was planning on conducting another procurement process for an additional TPM complying also with donors' requests.
5	OCHA Yemen should strengthen procedures for detecting implementing	Important	Yes	YHF/OCHA CBPF	December 2020	This recommendation is currently under implementation. However,

APPENDIX I

Management Response

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	partner irregularities relating to exchange rates used for translating local currency-based transactions during financial spot checks.					<p>OCHA Yemen notes that the design of financial spot checks does not include analysis of exchange rates used against daily market rates. This goes beyond the scope and objective of the financial spot check tool.</p> <p>It should further be noted that OCHA has been investing in strengthening the financial spot check tool, reference is made to the Geneva 2018 and upcoming Nairobi 2019 workshops on optimizing financial spot check tools.</p>
6	OCHA should approach the Controller to evaluate accounting policy options on International Public Sector Accounting Standard 4 on the impact of changes in foreign exchange rates in operations where there is a lack of foreign currency exchangeability when using official exchange rates.	Important	Yes	OCHA EO	December 2020	OCHA accepts this recommendation and will approach the Controller accordingly.
7	OCHA should clarify the process of reporting all complex fraud allegations involving implementing partners to OIOS Investigations Division, to facilitate independent investigations where necessary	Important	Yes	EO/CBPF	December 2020	<p>OCHA wants to reiterate that it provides all relevant information related to complex fraud allegations to OIOS ID in compliance with the UN anti-fraud and anti-corruption framework.</p> <p>In addition, the process has been accepted by OIOS as per previously shared correspondence</p>

APPENDIX I

Management Response

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>from the OIOS dated 9 October 2019: <i>“OCHA’s recent move towards the use of forensic audits to properly identify fraud is fully supported by ID/OIOS and indeed its adoption was subject of intense discussion between our respective offices. ../. We note that a forensic audit is not an investigation, nor do we consider that OCHA is conducting investigations into allegations of serious and complex fraud by the use of a forensic audit.</i> <i>ID/OIOS considers that the OCHA response to the challenge presented by implementing partner fraud is entirely proper and fully compliant with the Organization’s Anti-Fraud and Anti-Corruption Framework.”</i></p> <p>OCHA further wants to underline that all alleged fraud matters that allegedly involve UN staff are referred immediately and directly to OIOS for independent investigation as per the established UN procedures. These cases are not subject to forensic audit. If an ongoing forensic audit into an</p>

APPENDIX I

Management Response

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						implementing partner would identify potential UN staff involvement in matters of fraud, the matter would also be immediately referred to OIOS as per the established UN rules and procedures for investigation.
8	OCHA Yemen should apply the operational modalities for monitoring projects consistently, take steps to ensure that United Nations partners are scored for their compliance with requirements to submit financial and narrative reports on time and take appropriate action for non-compliance.	Important	Yes	OCHA Head of Office	December 2020	This recommendation is under implementation. OCHA reiterates that the YHF operational modalities stipulate monitoring for UN projects above \$5 million. The performance rating is the tool used to reflect the compliance with reporting deadlines. Unjustified non-compliance affects performance rating, which may affect future allocations on a case-by-case basis.
9	OCHA Yemen should conduct regular testing of the business continuity plan to minimize the risk of disruptions from unforeseen adverse events.	Important	Yes	Head of Office	December 2020	The BCP was tested on 8 September 2019 and an Action Plan developed to address gaps including IT services, Finance, Security, Common Services, medical evacuation, procurement, transport and general services. Work is in progress to resolve the identified gaps. The recommendations arising from the BCP exercise are being implemented, with a number having cost implications, which are being addressed in the 2020 cost plan. It is expected that the

Management Response

Audit of the operations of the Office for the Coordination of Humanitarian Affairs in Yemen

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						next BCP exercise will take place in September 2020.
10	OCHA Yemen should designate a senior-level official as the focal point on prevention of sexual exploitation and abuse for its operations in Yemen, to give the issue adequate strategic and operational priority.	Important	Yes	Deputy Head of Office	22 August 2019	Though OCHA had a focal point, who participated in the PSEA Network based in Sana'a, the focal point was not at the requisite level of seniority as stipulated by OCHA policy. Based on the audit recommendation, on 22 August, the Head of Office appointed the Deputy to lead OCHA's representation on the Network.