



INTERNAL AUDIT DIVISION

REPORT 2016/141

Audit of the operations in Central and Southern Iraq for the Office of the United Nations High Commissioner for Refugees

The Representation needed to strengthen controls over contingency planning and business continuity planning, management of projects implemented by partners, provision of basic needs and services to the persons of concern, procurement, and security and staff safety

2 December 2016

Assignment No. AR2016/131/02


Audit of the operations in Central and Southern Iraq 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 Central and Southern Iraq. The audit covered the period from 1 January 2014 to 31 March 2016 and included a review of: planning and resource allocation; emergency preparedness; partnership management; provision of basic needs and services, including management of the shelter programme, provision of cash-based assistance, distribution of non-food items (NFIs), and management of livelihoods activities; financial tracking and reporting; administration of the Medical Insurance Plan; procurement and vendor management; and security and staff safety.

There was a need for the Representation to strengthen controls over contingency planning and business continuity planning, management of projects implemented by partners, provision of basic needs and services to persons of concern, procurement, and security and staff safety.

The Office of Internal Oversight Services made eight recommendations. To address issues identified in the audit, the Representation needed to:

- Align emergency contingency planning and business continuity planning with critical programme activities;
- Implement a robust operation-wide control framework for the management of implementing partnerships;
- Improve monitoring of shelter activities and prepare a shelter strategy in alignment with the UNHCR Global Strategy for Settlement and Shelter 2014-18;
- Establish a system of regular post-distribution monitoring of cash assistance payments made to persons of concern and controls over bank reconciliation of such payments;
- Strengthen controls over distribution of NFIs;
- Undertake a situational assessment and develop a multi-year strategy for livelihoods activities and quick impact projects;
- Strengthen oversight arrangements over contract review and execution procedures and competitive bidding procedures; and
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Audit of the operations in Central and Southern Iraq 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 Central and Southern Iraq for the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. The UNHCR Representation in Iraq (hereinafter referred to as ‘the Representation’) started its operations in 1980. The Representation’s main populations of concern in 2015 included: (i) 2,308,698 Internally Displaced Persons (IDPs) in Central and Southern Iraq, out of whom 97 per cent lived in urban areas; (ii) 244,642 Syrian refugees registered in Iraq, with 97 per cent of them in the Kurdish Region of Iraq, while the remaining were settled in the Al Obaidy Camp in the town of Al Qaim in Anbar Governorate, with smaller numbers located in other governorates; (iii) 43,664 non-Syrian refugees and asylum seekers registered in Iraq of whom 11,015 resided in the Center and the South of Iraq; (iv) 50,000 stateless persons; and (v) 983 Iraqi returnees registered with the Government of Iraq according to the Ministry of Displacement and Migration.

3. The Representation in its operations plan for 2016 put an emphasis on: (i) ensuring access to protection and asylum procedures for refugees; (ii) reducing protection risks to persons of concerns, in particular to gender-based violence survivors and children; (iii) identifying durable solutions; and (iv) strengthening resiliency and capacity building of persons of concern to achieve self-reliance and building cohesive relations between host communities and persons of concern. The Representation reached more than 220,000 IDP families with basic domestic items, including special summarization and winterization kits. The Representation also targeted some 21,000 IDPs and 5,000 refugee families with its cash assistance programme. As the Emergency Shelter/Non-Food Items (NFI) Cluster lead in Iraq, it provided shelter solutions to some 500,000 IDPs. The United Nations Department of Safety and Security (UNDSS) had established the security level in Baghdad at five (high), although in the international zone where the UNHCR Country Office was located it was set at level two, i.e. low. In Basra, the security level was three (moderate), and in the Anbar Province, it was six (extreme).

4. The Representation has a Country Office in Baghdad, a Sub-Office in Erbil, four Field Offices in Sulaymaniyah, Dohuk, Kirkuk and Basra, and 12 Field Units. The offices in Erbil, Sulaymaniyah, Dohuk and Kirkuk are part of the UNHCR operations in Northern Iraq, and were therefore not covered by this audit. The Representation is headed by a Representative at the D-2 level. As of 31 March 2016, the Representation had 141 staff positions in Central and Southern Iraq. The Representation had expenditure of \$99.5 million in 2014, \$109.9 million in 2015, and \$12.8 million in 2016 (in the three-month period up to March) in Central and Southern Iraq. To implement its projects, the Representation worked with 22 partners in 2014 and 23 in 2015, and it had concluded project agreements with 19 partners in 2016 by the time of this audit.

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 Central and Southern Iraq.

7. The audit was included in the 2016 risk-based work plan of OIOS due to the risks related to the complexity of the operations in Central and Southern Iraq caused by the significant number of IDPs and the emergency situation resulting from the inflow of refugees and asylum seekers from Syria.

8. OIOS conducted this audit from April to September 2016. The audit covered the period from 1 January 2014 to 31 March 2016. Based on an activity-level risk assessment, the audit covered higher risk processes and activities pertaining to the operations in Central and Southern Iraq, which included: planning and resource allocation; emergency preparedness; partnership management; provision of basic needs and services, including management of the shelter programme, provision of cash-based assistance, distribution of NFIs, and management of livelihoods activities; financial tracking and reporting; administration of the Medical Insurance Plan; procurement and vendor management; and security and safety of staff.

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) testing of controls through stratified random sampling; (e) visits to the Representation's Country Office in Baghdad, Field Office in Basra, and offices of six partners implementing UNHCR projects; and (f) direct observation of activities and projects implemented in a Reintegration Community Centre and a warehouse in Baghdad.

III. OVERALL CONCLUSION

10. There was a need for the Representation to strengthen controls over contingency planning and business continuity planning, management of projects implemented by partners, provision of basic needs and services to the persons of concern, procurement, and security and staff safety.

IV. AUDIT RESULTS

A. Emergency preparedness

The Representation needed to align its emergency contingency planning and business continuity planning with its critical programme activities

11. According to UNHCR Emergency Handbook, the Representation, based on the results of a programme criticality assessment undertaken at the United Nations Country Team level, is required to: (i) develop contingency plans for its critical programme activities and a business continuity plan for continuation of its operations during an emergency; and (ii) maintain consistent contingency stock of NFIs for distribution to persons of concern during an emergency. The programme criticality assessment defines four levels of programme criticality, from 1 to 4, with rating 1 meaning that very high residual risks exist for an operation in a specific geographical area.

12. The programme criticality assessment done in Iraq in April 2014 rated the Representation's programme activities, consisting of the provision of emergency shelters and NFIs to IDPs, as 1, and the assessment done in February 2015 rated the programme activities consisting of the provision of emergency shelters, cash assistance, NFIs and livelihoods assistance to IDPs as 1. The Representation prepared an action plan to meet the protection needs of IDPs due to the emergency that started in Anbar governorate in early 2014 and escalated further to Mosul governorate in June 2014. The Representation

also prepared a business continuity plan in June 2014. In August 2014, the Inter-Agency Standing Committee declared Iraq as a 'Level 3' emergency.

13. However, OIOS review of the emergency preparedness activities indicated that the Representation did not:

- (i) Develop a contingency plan for its programme activities after the programme criticality assessment was completed in 2014 or after the Level 3 emergency was declared;
- (ii) Provide sufficient details in its 2015 contingency plan regarding the response actions for its programme activities following the 2015 programme criticality assessment;
- (iii) Maintain the required contingency stock of NFIs throughout the emergency. For example, it maintained stock of 37,783 hygiene kits in April 2015 which was below the required contingency stock of 50,000, and stock of 2,784 kitchen sets against the required contingency stock of 4,000 between November 2015 and January 2016;
- (iv) Complete all the envisaged preparedness actions contained in its business continuity plan; and
- (v) Undertake simulated exercises to test the adequacy of preparedness actions indicated in its business continuity plan.

14. The main reason for these shortcomings was that the Representation did not dedicate sufficient attention and resources for developing robust contingency plans for programme activities rated as 1 and to review and test the business continuity plan. As a result, there was an increased risk that the Representation would not be able to effectively respond to an emergency.

(1) The UNHCR Representation in Iraq should develop and implement an action plan and dedicate sufficient resources to: (i) ensure alignment of its contingency plan and business continuity plan with its critical programme activities; (ii) undertake regular reviews of these plans, as well as simulation exercises, to assess the adequacy of their comprehensiveness and readiness for emergency response; and (iii) ensure that minimum contingency stocks are maintained.

UNHCR accepted recommendation 1 and stated that the Representation: (i) revised its business continuity plan and contingency plan in consideration of the operational developments; (ii) established a system of reviewing the contingency plan on a weekly basis at the Senior Management Team level to respond to the ongoing developments in the country, particularly the Mosul emergency; (iii) linked the business continuity plan and the contingency plan with critical activities and programmes; and (iv) maintained a contingency stock of 20,000 core relief item kits which would be reviewed in consideration of available resources and changing circumstances. Recommendation 1 remains open pending receipt of: (i) evidence that the contingency plan and the business continuity plan are aligned with critical programme activities; (ii) evidence that these plans are reviewed regularly; and (iii) MSRP stock reports in support of the contingency stock maintained.

B. Partnership management

There was a need to strengthen controls over management of projects implemented by partners

15. The Representation is required to: (i) select or retain partners through an Implementing Partnership Management Committee (IPMC); (ii) prepare, finalize and sign project agreements in December of the preceding year of project implementation; (iii) assess the capacity of partners to undertake procurement using UNHCR funds; and (iv) ensure that partners obtain prior written approval of

the Representation before sub-contracting project activities. The Representation is also required to monitor progress in project implementation against the planned results through a risk-based approach.

16. The Representation had 100 Project Partnership Agreements (PPAs) with a total expenditure of \$104.0 million during the period under review. It entrusted procurement to partners totalling \$10.0 million in 2014, and \$25.0 million in 2015 and 2016 (up to 31 March) combined.

17. The Representation constituted an IPMC in July 2013. The Committee undertook the partner selection process for 2014 and 2015 project activities through solicitation of expression of interest from a wide range of partners. In August 2014, the Representation obtained a waiver from the UNHCR Implementing Partnership Management Service at headquarters for concluding PPAs with four new partners to implement activities following additional funds received. In December 2015, based on a desk review of the performance of existing partners, as recommended by IPMC, the Representation decided to retain all its partners for the 2016 programme cycle. OIOS concluded that the Representation had followed the due process in the selection and retention of its partners during the period under review.

18. However, regarding controls over project agreements, the Representation did not:

- (i) Conclude PPAs before the commencement of the project year in the case of 95 of the 100 PPAs during the three-year period 2014-2016;
- (ii) Assess the capacity of partners to undertake procurement involving \$5 million in seven cases; and
- (iii) Ensure that eight partners, which signed PPAs valued at \$59.0 million for shelter projects, obtained the Representation's prior written approval to sub-contract shelter activities.

19. OIOS review of the Representation's project monitoring activities further indicated that the Representation did not:

- (i) Constitute multi-functional teams to monitor project activities;
- (ii) Prepare an annual risk-based monitoring plan for each PPA, although it could provide evidence that it had undertaken regular financial monitoring in 2014 and both financial and performance monitoring in 2015;
- (iii) Put in place arrangements for sharing the mission reports of field staff with the Project Control Unit in Baghdad to facilitate adequate operation-wide project monitoring; and
- (iv) Ensure that monitoring teams systematically reviewed partners' procurement activities to assess if they followed competitive procurement procedures.

20. According to the Representation, the above shortcomings were due to late receipt of funds and the difficult operational environment. In the opinion of OIOS, in addition to the constraints mentioned, the Representation had not implemented a robust operation-wide control framework for the management of implementing partnerships in Iraq. As a result, the Representation was exposed to the risk of: (i) delays in implementation of project activities; and (ii) inability to identify and address partners' progress in implementing project activities and weaknesses in internal controls of partners. Whilst the audit was still ongoing, the Representation established multi-functional teams for monitoring project activities.

(2) The UNHCR Representation in Iraq should put in place procedures to strengthen management of project activities implemented through partners, including: timely signing of Project Partnership Agreements; assessment of partners' capacity to undertake procurement on UNHCR's behalf and monitoring of procurement activities of partners; and coordination of monitoring activities between the Country Office and field.

UNHCR accepted recommendation 2 and stated that: (i) risks associated with the management of

partnerships in Iraq were addressed through the IPMC; and (ii) the Representation promoted timely signature of agreements and amendments, based on a clear identification of priorities, partner expertise, effective delivery, and capacity to procure and implement key project activities considering the challenges faced in terms of security, shortages of funding and tight timeframes. Recommendation 2 remains open pending receipt of documentary evidence of controls established for the timely signing of project agreements and assessment of partners' capacity to procure before signing the agreements.

C. Provision of basic needs and services

The Representation needed to improve its monitoring arrangements over shelter projects

21. In providing appropriate shelter solutions to persons of concern, the Representation is required to put in place procedures for: (i) identifying beneficiaries through a participatory approach; (ii) partnering with the best-fit partners that could work in locations with security restrictions; (iii) undertaking capacity building of partners and staff that deal with shelter activities; (iv) developing a local shelter strategy and standard operating procedures; and (v) monitoring and reporting on the performance of shelter programme activities. In addition, the Representation is required to align and harmonize shelter performance indicators with the UNHCR Global Strategy for Settlement and Shelter 2014-2018.

22. The Representation disbursed \$59.0 million during the audit period for implementing shelter projects through eight partners. The Representation: established a shelter strategy; set beneficiary selection criteria; constituted beneficiary selection committees; developed a standard operating procedure for execution of shelter projects; developed standard bills of quantities to be used by partners; monitored the progress of the project activities through its field staff and a Project Tracking Database software; and conducted a training of trainers to partners on "Refugee Housing Unit Assembly and Installation".

23. However, OIOS review of controls in place for management of the shelter programme, including monitoring the execution of shelter projects, indicated that the Representation did not:

- (i) Document the ability of partners to work in locations with severe security restrictions;
- (ii) Ensure that three partners, implementing shelter projects totalling \$19.0 million, conducted separate evaluations of technical and financial offers in the tender documents they had received from their sub-contractors;
- (iii) Ensure that the same three partners had controls in place to ensure that payment vouchers were supported by certified site inspection reports;
- (iv) Ensure a partner that implemented shelter projects totalling \$7.0 million and had paid a 15 per cent advance amount to a sub-contractor had obtained a bank guarantee from the sub-contractor, as expected;
- (v) Ensure that Field Units reported on the progress of shelter works as per the bills of quantities; and
- (vi) Harmonise its shelter performance indicators with the Global Strategy for Settlement and Shelter.

24. The reasons for the above were attributed to: (i) the lack of risk-based reviews of the adequacy of the internal control systems at partners executing shelter projects; (ii) insufficient skills in contract management among some of the partners, which the Representation had not addressed through capacity building; and (iii) the lack of a shelter strategy developed in alignment with UNHCR Global Strategy for Settlement and Shelter 2014-18. As a result, the Representation was not fully ensuring that it was obtaining best value for the funds spent on shelter projects to meet the needs of its persons of concern.

(3) The UNHCR Representation in Iraq should: (i) strengthen its monitoring of shelter projects through regular assessment of the adequacy of the internal control systems put in place by partners implementing shelter activities; and (ii) prepare a shelter strategy in alignment with the UNHCR Global Strategy for Settlement and Shelter 2014-2018.

UNHCR accepted recommendation 3 and stated that: (i) the Representation's Shelter Unit, in coordination with field units, compiled the data on progress of execution of shelter projects and shared it with senior management and the Programme Unit; (ii) the Representation released instalments to partners based on the actual progress of the projects; (iii) the Shelter Unit would conduct two training sessions in January 2017 for the staff of UNHCR and the partners implementing shelter projects; and (iv) the Representation's new shelter strategy would be completed during the first quarter of 2017. Recommendation 3 remains open pending receipt of: (i) evidence of the monitoring arrangements established to ensure that internal control systems of the partners implementing shelter projects are regularly verified; and (ii) the finalized shelter strategy.

There was a need to improve controls over provision of cash-based assistance to the persons of concern

25. The Representation is required to establish adequate controls, including standard operating procedures, for delivering its cash assistance programmes. The requirements include the need to ensure that limited resources are targeted to the most vulnerable beneficiaries who are accurately identified and receive the assistance as intended. The Representation also needs to ensure that a reconciliation of cash payments made is conducted on a monthly basis. The Representation is further required to undertake post-distribution assessments of the impact of cash assistance programmes.

26. In 2014, the Representation paid cash assistance totalling \$6.7 million through a partner, and in 2015 it distributed \$5.3 million through a smart card company. For 2016, it concluded a PPA with the same partner it had worked with in 2014 involving \$3.8 million. The Representation: constituted a multi-functional team for selection of beneficiaries; prepared standard operating procedures for cash programmes; and initiated efforts to introduce a software to track cash assistance provided by UNHCR and other United Nations agencies to persons of concern. However, the Representation did not: (i) determine methods for conducting post-distribution assessments when it could not get access to some locations; (ii) recover \$343,888 left unused with the smart card company; and (iii) ensure that the partner conducted bank reconciliations of the payments made.

27. The main reason for the cited weaknesses was that although the cash assistance activity was rated as 1 in terms of its criticality in the programme criticality assessment, the Representation did not undertake any situation analysis to assess the delivery options and associated risks, and the best-suited monitoring methods given the high-risk security environment. Consequently, there was a risk that it would not be able to adequately respond to the cash assistance needs of its persons of concern. Whilst the audit was still ongoing, followed by a situation analysis done, the Representation selected an appropriate delivery option, and recovered the unused funds of \$343,888 left with the smart card company.

(4) The UNHCR Representation in Iraq should establish a system of regular post-distribution monitoring of cash assistance payments made to the persons of concern and controls over bank reconciliation of such payments.

UNHCR accepted recommendation 4 and stated that the Representation: (i) launched a call for expression of interest and, through a careful selection process, the IPMC selected a suitable partner to implement post-distribution monitoring of cash assistance projects; and (ii) conducted three financial and performance verifications through a multi-functional approach to assess the

effectiveness of cash assistance delivery and the bank reconciliation process. Recommendation 4 remains open pending receipt of: (i) the post-distribution monitoring plan for cash assistance payments; and (ii) a sample of the results of the post-distribution monitoring undertaken.

The Representation needed to strengthen controls over distribution of NFIs

28. The Representation is required to have an effective supply chain strategy for emergencies, which includes establishing criteria for the selection of beneficiaries for distribution of NFIs and developing distribution plans, undertaking regular on-site distribution monitoring and post distribution monitoring, updating the actual quantities distributed in an electronic system, and preparing reconciliation reports.

29. During the period under review, the Representation, after assessing the needs, distributed NFI kits valued at \$37.7 million in Central and Southern Iraq; prepared a supply strategy; ensured that delivery and distribution documents were signed and stamped by Local Councils and a staff member of the partner responsible for distribution; maintained a Note for the File from a staff confirming the completion of distribution of NFIs; and uploaded the details of distributions of NFIs into its Project Tracking Database. However, the Representation did not conduct post-distribution monitoring or ascertain the reliability of the distribution reports submitted by the partner by reconciling them against the waybills. It also did not undertake adequate identification of beneficiaries to minimize the risk of duplication. For example, OIOS review of 750 NFIs distributed in 2015 in Baghdad indicated that 20 beneficiaries had received the same NFIs during previous distributions.

30. The cited control deficiencies occurred because the Representation had not put in place appropriate management supervision arrangements for distribution of NFIs. This exposed it to a risk of not being able to ascertain that the persons of concern received the required NFIs.

(5) The UNHCR Representation in Iraq should strengthen control arrangements over the distribution of non-food items by: (i) implementing procedures for reconciliation of items distributed against waybills; (ii) requiring the partner and field teams to undertake adequate identification of beneficiaries at distribution points; and (iii) developing a post-distribution monitoring plan.

UNHCR accepted recommendation 5 and stated that: (i) the Representation established an NFI distribution tracking spreadsheet that listed all the items distributed, including the corresponding purchase order and waybill number; (ii) the Representation's field and protection teams carried out assessment missions to determine the needs of displaced communities and particularly vulnerable individuals; and (iii) the Representation developed an effective post-distribution monitoring plan. Recommendation 5 remains open pending receipt of: (i) evidence of controls established for the identification of beneficiaries at distribution points; and (ii) a copy of the NFI post-distribution monitoring plan.

The Representation needed to improve controls over implementation of livelihoods activities

31. The UNHCR Operational Guidelines on the Minimum Criteria for Livelihoods Programming prescribe mandatory criteria for livelihoods activities, which require the Representation to: (i) conduct an in-depth situational assessment before implementing a livelihood programme; (ii) develop a multi-year livelihoods strategic plan with clear criteria to select and target beneficiaries; (iii) select experienced and competent partners to implement livelihoods projects and quick impact projects; (iv) deploy a dedicated livelihoods expert; and (v) monitor and evaluate the impact of livelihoods programme outputs.

32. The Representation worked with 10 partners in 2014 and 9 partners in 2015 to implement livelihoods activities. These activities included quick impact projects aimed at enhancing social coherence between host and displacement communities in Central and Southern Iraq involving \$4.9 million in 2014 and \$4.2 million in 2015. OIOS review of the project activities implemented by four partners involving \$3.0 million and a visit to a partner and two beneficiaries in Basra indicated that the Representation had developed guidelines to guide the planning, design, implementation, monitoring and evaluation of the quick impact projects and selected relevant performance indicators. However, the Representation did not:

- (i) Develop a multi-year strategy for the livelihoods programming;
- (ii) Have dedicated staff with livelihoods expertise to monitor the quick impact project activities;
- (iii) Prepare a baseline or an in-depth situational assessment for the project activities;
- (iv) Ensure that a partner in Basra provided training to all identified 200 beneficiaries for the activities involving \$683,084 in 2015 as required by the PPA with the partner;
- (v) Ensure that the partner coordinated with the Ministry of Displacement and Migration and Local Councils to avoid duplication of assistance to beneficiaries;
- (vi) Assess the quality of tools and equipment that a partner distributed to beneficiaries in Basra; and
- (vii) Evaluate the impact of quick impact projects implemented by a partner involving \$1.4 million.

33. The above weaknesses occurred because the Representation had not prioritized the planning and monitoring of livelihoods and quick impact projects programming due to other needs in the prevailing emergency context. As a result, the Representation was exposed to operational and reputational risks related to reduced self-reliance opportunities for IDPs. The Representation explained that it strategically decided to promote self-reliance of IDPs through creating an enabling environment in Central and Southern Iraq which did not include pursuing livelihoods activities as vigorously as before. Despite this decision, the Representation spent over \$9 million in livelihoods activities during 2014 and 2015, and budgeted a further \$1.9 million for such activities in 2016, and UNHCR offices implementing a livelihoods programme are required to meet the minimum livelihoods programming criteria.

(6) The UNHCR Representation in Iraq should: (i) undertake a situational assessment and develop a multi-year strategy for livelihoods activities and quick impact projects; (ii) assess the staffing requirements for the implementation of such a strategy; and (iii) put in place arrangements to effectively monitor and evaluate the quick impact projects.

UNHCR accepted recommendation 6 and stated that, over the last year, the Representation had focused on facilitating the creation of an enabling environment to allow refugees/IDPs to compete in the job market on equal footing with nationals to attain a measure of self-reliance and strengthen resilience despite low economic activity. This area-based approach was expected to benefit refugees, IDPs, host families and host communities with enhanced services under equal conditions. Peaceful co-existence/social cohesion would also be improved as a result. Recommendation 6 remains open pending receipt of evidence of: (i) the situational assessment undertaken and the multi-year approach developed for livelihoods activities in Central and Southern Iraq in view of the significant amounts spent on these activities; (ii) the staffing requirements assessed; and (iii) arrangements put in place for monitoring livelihoods activities.

D. Procurement and vendor management

The Representation needed to strengthen oversight arrangements over procurement activities

34. The Representation is required to comply with UNHCR procurement rules and procedures, which include: (i) establishing a Vendor Review Committee (VRC) to oversee the vendor management process; (ii) preparing a needs-based annual procurement plan; and (iii) ensuring adequate oversight over procurement activities, which includes establishing a Local Committee on Contracts (LCC) to review all contracts above \$20,000. During emergencies, the Representation also needs to optimize resources through effective planning, and assess the cost effectiveness of continuing with local purchases beyond the initial phase of an emergency.

35. During the period under review, the Representation issued 379 local purchase orders totalling \$25.0 million. It had constituted a VRC in August 2015 which convened eight meetings and deactivated 26 dormant vendors from the Representation's vendor database. The Representation had established an LCC in January 2014 which convened 29 meetings involving 40 cases with a total submission value of \$29.0 million. The Representation also prepared a supply strategy. However, OIOS review of the procurement activities, including a review of 40 purchase orders totalling \$12.9 million, indicated that:

- (i) The Representation did not prepare procurement plans for 2014 and 2015, although it prepared one for 2016;
- (ii) Out of 40 procurement cases reviewed, 31 related to waivers and/or post-facto notifications involving \$5.5 million, which appeared excessive and could have been avoided through improved planning to facilitate competitive procurement. For example, the Representation procured services from the same vendors without re-bidding for: (i) mobile services for 30 months totalling \$605,200; and (ii) security services for 37 months involving \$318,750. The LCC minutes did not have a record of deliberations indicating whether the Committee had examined the justification for these waivers and post-facto notifications;
- (iii) Following the declaration of the emergency, the Representation temporarily occupied two hotels in Erbil in June 2014 to March 2015 and October 2014 to July 2015, but without ensuring that the rates paid were competitive among the other 10 Minimum Operating Security Standards (MOSS) compliant hotels available. This resulted in a submission to the Committee on Contracts at headquarters of a post-facto notification of expenditure of \$1,680,650;
- (iv) In 2014 and 2015, through 11 purchase orders totalling \$2.3 million, the Representation procured NFIs beyond the permitted threshold limits set in the frame agreements. The Representation did not notify it to the Committee on Contracts at headquarters, as required;
- (v) The Representation raised purchase orders totalling \$1.8 million in 28 cases after the invoice date;
- (vi) In four cases totalling \$1.1 million, the Representation did not obtain the minimum number of bids; and
- (vii) In three cases involving \$804,850, the Representation required bids to be received within one to two weeks as against the UNHCR standard of four to eight weeks.

36. The above weaknesses were the result of inadequate management supervision and oversight arrangements over the Representation's procurement activities. The LCC members were also not sufficiently aware of their roles and responsibilities and were not trained on UNHCR procurement rules and procedures. This exposed the Representation to an increased risk of financial losses, inefficient operations, and not receiving best value from procurement of goods and services.

(7) The UNHCR Representation in Iraq should implement an action plan to ensure that: (i) appropriate contract review and execution procedures are in place to avoid excessive use of ex-post facto notifications and waivers of competitive bidding as well as approval of purchase orders after receipt of the invoices; and (ii) minimum required number of bids are obtained from the vendors after giving them sufficient response time.

UNHCR accepted recommendation 7 and stated that the Representation was implementing the

recommended action plan. Recommendation 7 remains open pending receipt of an analysis of the procurement cases approved by the LCC during 2016 indicating the number of bids obtained and the response time given to bidders in each case.

E. Security and staff safety

[Redacted]

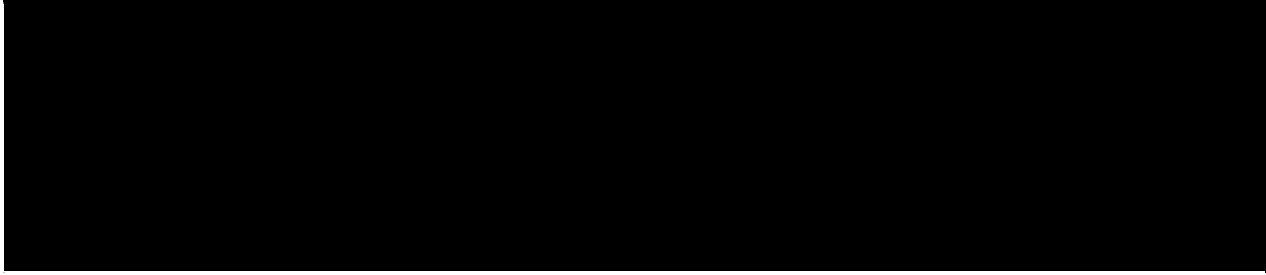
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V. ACKNOWLEDGEMENT

40. 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 Central and Southern Iraq for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Iraq should develop and implement an action plan and dedicate sufficient resources to: (i) ensure alignment of its contingency plan and business continuity plan with its critical programme activities; (ii) undertake regular reviews of these plans, as well as simulation exercises, to assess the adequacy of their comprehensiveness and readiness for emergency response; and (iii) ensure that minimum contingency stocks are maintained.	Important	O	Submission to OIOS of: (i) evidence that the contingency plan and the business continuity plan are aligned with critical programme activities; (ii) evidence that these plans are reviewed regularly; and (iii) MSRP stock reports in support of the contingency stock maintained.	31 March 2017
2	The UNHCR Representation in Iraq should put in place procedures to strengthen management of project activities implemented through partners, including: timely signing of Project Partnership Agreements; assessment of partners' capacity to undertake procurement on UNHCR's behalf and monitoring of procurement activities of partners; and coordination of monitoring activities between the Country Office and field.	Important	O	Submission to OIOS of documentary evidence of controls established for the timely signing of project agreements and assessment of partners' capacity to procure before signing the agreements.	30 June 2017
3	The UNHCR Representation in Iraq should: (i) strengthen its monitoring of shelter projects through regular assessment of the adequacy of the internal control systems put in place by partners implementing shelter activities; and (ii) prepare a shelter strategy in alignment with the UNHCR Global Strategy for Settlement and Shelter 2014-18.	Important	O	Submission to OIOS of: (i) evidence of monitoring arrangements established to ensure that internal control systems of the partners implementing shelter projects are regularly verified; and (ii) the finalized shelter strategy.	31 March 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

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
4	The UNHCR Representation in Iraq should establish a system of regular post-distribution monitoring of cash assistance payments made to the persons of concern and controls over bank reconciliation of such payments..	Important	O	Submission to OIOS of: (i) the post-distribution monitoring plan for cash assistance payments; and (ii) a sample of the results of the post-distribution monitoring undertaken.	31 December 2016
5	The UNHCR Representation in Iraq should strengthen control arrangements over the distribution of non-food items by: (i) implementing procedures for reconciliation of items distributed against waybills; (ii) requiring the partner and field teams to undertake adequate identification of beneficiaries at distribution points; and (iii) developing a post-distribution monitoring plan.	Important	O	Submission to OIOS of: (i) evidence of controls established for the identification of beneficiaries at distribution points; and (ii) a copy of the NFI post-distribution monitoring plan.	30 June 2017
6	The UNHCR Representation in Iraq should: (i) undertake a situational assessment and develop a multi-year strategy for livelihoods activities and quick impact projects; (ii) assess the staffing requirements for the implementation of such a strategy; and (iii) put in place arrangements to effectively monitor and evaluate the quick impact projects.	Important	O	Submission to OIOS of evidence of: (i) the situational assessment undertaken and the multi-year approach developed for livelihoods activities in Central and Southern Iraq; (ii) the the staffing requirements assessed; and (iii) arrangements put in place for monitoring livelihoods activities.	30 June 2017
7	The UNHCR Representation in Iraq should implement an action plan to ensure that: (i) appropriate contract review and execution procedures are in place to avoid excessive use of ex-post facto notifications and waivers of competitive bidding as well as approval of purchase orders after receipt of the invoices; and (ii) minimum required number of bids are obtained from the vendors after giving them sufficient response time.	Important	O	Submission to OIOS of an analysis of the procurement cases approved by the LCC during 2016 indicating the number of bids obtained and the response time given to bidders in each case.	31 March 2017

STATUS OF AUDIT RECOMMENDATIONS

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	[REDACTED]				

APPENDIX I

Management Response

AUDIT RECOMMENDATIONS

Audit of the operations in Central and Southern Iraq 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 ³
1	The UNHCR Representation in Iraq should develop and implement an action plan and dedicate sufficient resources to: (i) ensure alignment of its contingency plan and business continuity plan with its critical programme activities; (ii) undertake regular reviews of these plans, as well as simulation exercises, to assess the adequacy of their comprehensiveness and readiness for emergency response; and (iii) ensure that minimum contingency stocks are maintained.	Important	Yes	Deputy Representative	31 March 2017	<p>The business continuity plan and contingency plan are in place and are revised depending on the operational developments. The UNHCR Business Continuity plan was last updated in November 2016. Contingency planning is reviewed weekly following creation of a Senior Management Team in October 2016 to respond to in country developments particularly regarding Mosul emergency. Both are also linked to critical activities and programs that UNHCR undertakes to meet needs of persons of concern in Iraq. UNHCR will continue efforts to assure that planning and activities are complementary to each other and to assess the adequacy of their comprehensiveness and readiness for emergency response.</p> <p>UNHCR Iraq maintains a minimum of 20,000 core relief item kits as contingency stock at this time. Contingency stock amounts are and will be adjusted as required subject to available funding resources as well as anticipated emergency scenarios.</p>

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

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

³ Please indicate feasibility and realistic timelines for implementation of the recommendation.

AUDIT RECOMMENDATIONS

Audit of the operations in Central and Southern Iraq 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 ³
2	The UNHCR Representation in Iraq should put in place procedures to strengthen management of project activities implemented through partners, including: timely signing of Project Partnership Agreements; assessment of partners' capacity to undertake procurement on UNHCR's behalf and monitoring of procurement activities of partners; and coordination of monitoring activities between the Country Office and field.	Important	Yes	Assistant Representative (Programme) Programme Officer	30 June 2017	Since 2013 UNHCR Iraq, has ensured the effective selection/retention of suitable partners based on the current Policy Project Partnership Agreements. Risks associated with the management of partnerships have been addressed regularly through the establishment of the IPMC, based on a Multi-Functional Team (MFT) approach. The Representation promoted timely signature of agreements and amendments, based on a clear identification of priorities, partners expertise, effective delivery, capacity to procure and implement key project activities considering the challenges faced in terms of security, shortages of funding, tight timeframes given the emergency situations.
3	The UNHCR Representation in Iraq should: (i) strengthen its monitoring of shelter projects through regular assessment of the adequacy of the internal control systems put in place by partners implementing shelter activities; and (ii) prepare a shelter strategy in alignment with the UNHCR Global Strategy for Settlement and Shelter 2014-18.	Important	Yes	Snr. Field Coordinator Assistant Shelter Officer	31 March 2017	(i) The Shelter Unit in coordination with Field, compiles partner's data showing progress of Shelter Projects and share weekly monitoring reports with Senior Management and the Programme Unit. Partner installments are released based on the progress identified and disbursements to sub-contracted agencies are delivered, once completion of activities are verified. If any project risk or modification is encountered this is immediately addressed with Programme to discuss and ensure implementation is effectively carried out as planned. The Shelter Unit will also conduct two training sessions in January 2017 both for UNHCR and partner staff to enhance their monitoring and reporting capacity. (ii) The new shelter strategy is undergoing the clearance

AUDIT RECOMMENDATIONS

Audit of the operations in Central and Southern Iraq 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 ³
						process which is expected to be finalized during the course of the first quarter of 2017.
4	The UNHCR Representation in Iraq should establish a system of regular post-distribution monitoring of cash assistance payments made to the persons of concern and controls over bank reconciliation of such payments.	Important	Yes	CBI Officer Assistant Representative (Programme)	31 December 2016	In 2016, the Representation launched a Call for Expression of Interest, and through a careful selection process the IPMC selected a suitable partner to implement post-distribution monitoring of cash assistance projects. In addition, three financial and performance Multi-Functional Team (MFT) verification visits have taken place to assess the effective delivery of the project and ensure that bank reconciliation is made. Project Control, Cash, Protection and Programme Units actively participated in these activities.
5	The UNHCR Representation in Iraq should strengthen control arrangements over the delivery of non-food items by: (i) implementing procedures for reconciliation of items distributed against waybills; (ii) requiring the partner and field teams to undertake adequate identification of beneficiaries at distribution points; and (iii) developing a post-distribution monitoring plan.	Important	Yes	Snr. Field Coordinator Associate Field Officer	30 June 2017	(i) Regarding the implementing procedures for reconciliation of items distributed against waybills, UNHCR has already undertaken the adequate procedures for reconciliation. The new monitoring document lists all distributed items, including corresponding purchase order and waybill numbers for each item distributed. In the new distribution tracking matrix spreadsheet, UNHCR center and south field team established the PO number and waybill number columns next to each other to enhance reconciliation. (ii) On a regular basis, UNHCR field and protection teams carry out assessment missions to determine the needs of displaced communities and particularly vulnerable individuals. (iii) UNHCR has developed an effective post

AUDIT RECOMMENDATIONS

Audit of the operations in Central and Southern Iraq 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 ³
						distribution monitoring plan.
6	The UNHCR Representation in Iraq should: (i) undertake a situational assessment and develop a multi-year strategy for livelihood activities and quick impact projects; (ii) assess the staffing requirements for the implementation of such a strategy; and (iii) put in place procedures to effectively monitor and evaluate the quick impact projects.	Important	Yes	Deputy Representative Assistant Representative (Programme)	30 June 2017	Over the last year, UNHCR Iraq has focused on facilitating the creation of an enabling environment to allow refugees/IDPs to compete in the job market on equal footing with nationals and seize every opportunity to attain a measure of self-reliance and strengthen resilience even in this period of lower economic activity. UNHCR has fostered the creation of an enabling environment which includes not only registration/documentation, vocational/skills training, legal/social counselling, help with CV writing and issuance of reference letters, but also provision of multipurpose cash assistance to vulnerable individuals and enhanced access to strengthened health and education services on equal footing with host communities. This is based on an area approach whereby refugees, IDPs, host families and host communities equally benefit from access to enhanced services under equal conditions, and peaceful co-existence/social cohesion are improved as a result.
7	The UNHCR Representation in Iraq should implement an action plan to ensure that: (i) appropriate contract review and execution procedures are in place to avoid excessive use of ex-post facto notifications and waivers of competitive bidding as well as approval of purchase orders after receipt of the	Important	Yes	Deputy Representative Supply Officer	31 March 2017	The Representation in Iraq is implemented an action plan as recommended.

AUDIT RECOMMENDATIONS

Audit of the operations in Central and Southern Iraq 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 ³
	invoices; and (ii) minimum required number of bids are obtained from the vendors after giving them sufficient response time.					
1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]