



INTERNAL AUDIT DIVISION

REPORT 2019/005

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

**There was a need to strengthen controls
over partnership management, security and
staff safety, procurement and vendor
management, distribution of non-food items
and warehouse management, and cash-
based interventions**

**18 February 2019
Assignment No. AR2018/121/03**

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

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in Ukraine for the Office of the United Nations High Commissioner for Refugees (UNHCR). The objective of the audit was to assess whether the UNHCR Representation in Ukraine was managing the delivery of services to its persons of concern in a cost-effective manner and in compliance with UNHCR's policy requirements. The audit covered the period from 1 January 2017 to 31 July 2018 and included a review of: (a) partnership management; (b) security and staff safety; (c) procurement and vendor management; (d) non-food item (NFI) distribution and warehouse management; (e) cash-based interventions (CBI); and (f) favourable protection environment and government relations.

OIOS concluded that the Representation implemented effective controls over activities related to favourable protection environment and government relations. However, there was a need for the Representation to strengthen controls over partnership management, security and staff safety, procurement and vendor management, distribution of NFIs and warehouse management, and CBI.

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

- Develop and implement an action plan to ensure the timeliness of the processes for: (a) designation of procurement to partners supported by a cost-benefit analysis and an assessment of procurement capacity of partners; and (b) development of risk-based project monitoring plans;
- Establish effective monitoring mechanisms and develop and implement an action plan, with clear milestones and necessary budgetary provisions, to ensure that all staff meet the mandatory security training requirements;
- Develop and implement an action plan to: (a) strengthen vendor management, (b) monitor the status of purchase orders raised, and (c) adopt measures to mitigate risks associated with the usage of email for tendering;
- Strengthen management monitoring and accountability over NFI distribution and warehouse management, and establish: (a) controls to verify the delivery of non-food and other items through regular reconciliations and post-distribution monitoring; and (b) standard operating procedures (SOPs) for physical verification of inventory, warehouse documentation, and security measures at warehouses; and
- Strengthen controls over CBI by: (a) assessing the comparative advantage of direct implementation over implementation through partners; (b) ensuring that all SOPs are cleared by headquarters; and (iii) conducting post-distribution monitoring of all CBI projects for refugees and asylum seekers.

UNHCR accepted the recommendations, took satisfactory action to implement one and has initiated action to implement the remaining four recommendations.

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Audit of the operations in Ukraine 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 Ukraine for the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. The UNHCR Representation in Ukraine (hereinafter referred to as ‘the Representation’) was established in 1995. In 2004, it became a Regional Representation covering also Belarus and Moldova, but in 2015, it reverted to a standalone Representation. As of 31 July 2017, there were 3,225 refugees, 6,286 asylum-seekers, 1,800,000 internally displaced persons (IDPs) and 35,574 stateless persons in Ukraine, of whom UNHCR assisted 648 refugees, 5,608 asylum-seekers, 36,843 IDPs, and 585 stateless persons. The refugees came from 56 countries, including notably Afghanistan, Syria, Armenia, Russian Federation, Azerbaijan and Somalia. Regarding the IDP situation, a Level 1 Emergency was declared on 31 July 2014, and this was elevated to Level 2 on 16 January 2015. However, the emergency declaration was deactivated on 26 July 2016.
3. In respect of IDPs, UNHCR led the shelter and non-food item (NFI) cluster and the protection cluster. The Representation gave strategic priority in its 2017 operations plan to the following areas: (a) legal assistance to ensure access to rights for the most vulnerable conflict affected population, and (b) shelter and NFI distribution focusing on the most urgent needs. Regarding refugees and asylum-seekers, the Representation continued providing material, social and medical assistance to the most vulnerable persons.
4. The Representation had a Country Office in Kyiv, a Sub Office in Sloviansk, four Field Offices in Donetsk, Mariupol, Severodonetsk and Luhansk, and a Field Unit in Kharkiv. As of July 2018, the Representation, headed by a Representative at the D-1 level, had 128 regular posts and 26 affiliate staff. The Representation had a total expenditure of \$21.4 million in 2017. Its budget for 2018 was \$19.9 million, of which \$10.0 million was spent by 31 July 2018. For 2017 and 2018, the Representation worked with 15 and 17 partners respectively. In 2017, the total expenditures of the 15 partners amounted to \$6.8 million and accounted for 51.6 per cent of programme-related expenditures for the year.
5. Comments provided by the Representation are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess whether the UNHCR Representation in Ukraine was managing the delivery of services to its persons of concern in a cost-effective manner and in compliance with UNHCR’s policy requirements.
7. The audit was included in the 2018 risk-based internal audit work plan of OIOS because of risks related to the complex operational landscape and humanitarian needs in Ukraine.
8. OIOS conducted the audit from August to December 2018. The audit covered the period from 1 January 2017 to 31 July 2018. Based on an activity-level risk assessment, the audit covered the following higher risk areas: (a) partnership management; (b) security and staff safety; (c) procurement and vendor management; (d) NFI distribution and warehouse management; (e) cash-based interventions (CBI); and (f) favourable protection environment and government relations.

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) review of data extracted from proGres, the UNHCR registration and case management system; (e) sample testing of controls using systematic and random sampling methods; (e) visits to the UNHCR offices in Kyiv, Sloviansk and Severodonetsk, the offices of four partners implementing UNHCR projects, as well as the Representation's two warehouses and two other warehouses belonging to partners; and (f) interviews with beneficiaries.

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

III. AUDIT RESULTS

A. Partnership management

There was a need to improve the timeliness in undertaking and completing some of the core partnership management processes

11. In order to achieve the expected programme and project results through the use of partners, it is essential for the Representation to: (a) select or retain partners through an Implementing Partnership Management Committee (IPMC) to ensure that the process is carried out with adequate objectivity, transparency, consistency and timeliness; (b) sign project partnership agreements (PPAs) before commencement of the project year and transfer instalments to partners in a timely manner; and (c) monitor project activities through a risk based and multi-functional team approach.

12. Selection and retention of partners: The Representation's IPMC, whose composition was last updated in October 2017, met three times between January 2017 and July 2018. The IPMC followed the UNHCR procedures for partner selection and retention for 2017 and 2018, and the related considerations, discussions and conclusions were sufficiently recorded in relevant documents.

13. Designation of procurement to partners: The Representation delegated procurement to all its 15 partners worth \$2.2 million in 2017 and all 17 partners for \$2.3 million in 2018. Seven partners were entrusted with procurement exceeding \$100,000 during both years. Only one of them had been pre-qualified by UNHCR to conduct procurement of this size at the time the decisions were made; however, the other six were also subsequently prequalified. OIOS also noted that the Representation conducted an assessment of comparative advantage and an assessment of procurement capacity of partners as part of the procurement designation process; nonetheless, this was not done consistently for all partners and the process was delayed during both years. In addition, whilst the Representative signed the PPAs and thus effectively engaged the partners to conduct procurement for project implementation purposes, he did not expressly review and approve the procurement designation decisions as per UNHCR requirements.

14. Project agreements: Of the 14 PPAs for 2017 whose effective start date was 1 January 2017, only one was signed in December 2016. However, OIOS noted that the timeliness of signing the PPAs with the partners improved from 2017 to 2018, as all 16 PPAs for 2018 with a start date of 1 January 2018 were signed in December 2017.

15. Project monitoring: For the 2017 PPAs, the Representation conducted financial and performance verification visits (one to five visits per PPA for the former and one to three visits per PPA for the latter) following a multi-functional team approach. OIOS noted the following weaknesses in partner monitoring:

- For 2017, the Representation prepared risk-based project monitoring plans for all 20 PPAs. The timeliness of developing these plans needed improvement because 15 were prepared only in the third quarter of 2017, while the other 5 had no dates. For 2018, the Representation prepared project monitoring plans for 17 of the 20 PPAs; however, 4 of them were prepared only in May 2018 while the other 13 had no dates.
- The Representation’s follow-up on recommendations raised in project audit reports for the 2016 project year was not timely in some instances, and some recommendations remained outstanding at the time of the OIOS audit mission in September 2018. The Representation was adequately following up on recommendations raised by project audit reports covering the 2017 project year.

16. OIOS associated the above-mentioned weaknesses related to the lack of timeliness of some of the partnership management processes with inadequate planning and vacancies in key posts.

(1) The UNHCR Representation in Ukraine should develop and implement an action plan to ensure the timeliness of the processes for: (a) designation of procurement to partners supported by an assessment of comparative advantage and an assessment of procurement capacity of partners; and (b) development of risk-based project monitoring plans.

UNHCR accepted recommendation 1 and stated that the Representation had improved the timeliness of the designation of procurement to partners supported by necessary assessments and the development of risk-based project monitoring plans. Based on the action taken and documentation provided by UNHCR, recommendation 1 has been closed.

B. Security and staff safety

The Representation needed to ensure that staff comply with the mandatory security training requirements

17. It is essential for operations to adopt a risk management approach balancing the criticality of programmes and associated dangers to staff and premises based on a reasonable determination of acceptable risk. UNHCR field operations also need to actively participate in the country-level United Nations Security Management System activities, comply with its minimum standards, and fulfil the accountabilities of participating agencies including those related to coordination and staff training.

18. The security level was “2: Low” for Kyiv and Kharkiv and “4: Substantial” for the other locations in Eastern Ukraine. For this reason, a programme criticality exercise was conducted in late 2017 for Eastern Ukraine. Within the framework of this United Nations system-wide exercise, each United Nations entity operating in Eastern Ukraine also reviewed, through a peer review mechanism, whether its outputs and activities were implemented within the levels of acceptable risks. The Representation also actively participated in the Security Management Team meetings. Furthermore, all UNHCR offices were in compliance with the Minimum Operating Security Standards (MOSS) for Ukraine.

19. UNHCR personnel were required to complete the online courses “Basic Security In The Field” (BSITF) and “Advanced Security In The Field” (ASITF), and personnel based or frequently operating in the Eastern Conflict Area were also required to complete the course “Safe and Secure Approaches In Field Environments” (SSAFE). All 128 personnel of the Representation except for two had valid BSITF and ASITF certificates. Of the 83 personnel for whom the SSAFE certificate was required, the 6 who had not completed it, were scheduled to attend the United Nations Department of Safety and Security training in 2019. The Representation had understood that the responsibility to complete mandatory courses fell on individual staff. However, as the completion of these courses is a MOSS requirement, the Representation should have ensured full compliance.

(2) The UNHCR Representation in Ukraine should establish effective monitoring mechanisms and develop and implement an action plan, with clear milestones and necessary budgetary provisions, to ensure that all staff meet the mandatory security training requirements.

UNHCR accepted recommendation 2 and stated that the Representation had established a monitoring mechanism to ensure timely renewal of all mandatory security trainings and included sufficient budgetary provisions for mandatory trainings in its 2019 budget. Recommendation 2 remains open pending receipt of evidence that all staff have complied with the mandatory security training requirements.

C. Procurement and vendor management

There was a need to strengthen vendor management, monitor the status of purchase orders raised, and adopt measures to mitigate risks associated with the usage of email for tendering

20. To ensure the integrity of the procurement process and that UNHCR receives value for money for the acquisition of goods and services to support its operations, it is essential to: (a) prepare an annual procurement plan according to identified needs; (b) establish an effective vendor management system; (c) initiate timely procurement activities in accordance with the procurement plan; and (d) ensure adequate oversight over the procurement activities by establishing a Local Committee on Contracts (LCC).

21. The Representation raised 548 purchase orders totalling \$9.9 million during the period from 1 January 2017 to the end of July 2018. OIOS reviewed 25 purchase orders and related documents totalling \$6.6 million (representing 67 per cent of all procurement), and all the 29 minutes of LCC meetings held during the same period. Since the previous OIOS audit on UNHCR operations in Ukraine in 2015 (Report 2015/071), which raised a critical recommendation related to procurement and vendor management, OIOS noted major improvements such as: (a) creation of a dedicated Supply Unit; (b) establishment of a Vendor Review Committee (VRC); and (c) more systematic compliance with fundamental requirements for competitive bidding. Nevertheless, OIOS noted some remaining weaknesses in the procurement and vendor management activities, which were due to inadequate management oversight, as described in the following paragraphs.

Vendor management

22. The Representation updated the composition of the VRC in January 2017 and in September 2018. The Committee held 11 meetings during the period under audit and reviewed 38 requests for vendor registration. However, OIOS review of files pertaining to 41 vendors indicated that 31 vendors had been registered without VRC review. In addition, OIOS identified 16 duplicate vendors out of the 1,577 approved vendors, which exposed the Representation to the risk of double payments. Finally, the VRC did not evaluate the performance of existing vendors as required.

Procurement management

23. The Representation did not prepare a procurement plan for 2017. As a result, procurement activities were undertaken in an ad-hoc manner, resulting in the need to refer ex post facto cases to the LCC and avoidable requests for waivers of competitive bidding. The Representation did, however, prepare a procurement plan for 2018.

24. As of July 2018, the Representation had purchase orders issued in 2017 totalling \$844,432 for which goods or services had not yet been successfully delivered, including items totalling \$145,247 rejected at delivery but not yet replaced. In addition, although purchase orders for \$2.3 million were cancelled or pending cancellation, the Representation did not document the reasons for such cancellations. These situations indicated a high likelihood that vendors had violated the contractual terms.

25. The Representation did not assess the operational risks of using email to receive bids from vendors. For instance, because only four vendors could successfully send bids to the UNHCR email account on the first attempt in August 2017, the Representation had to retender in December 2017 for a project involving \$1.1 million for the construction of 200 houses which resulted in project implementation delays. Furthermore, the Representation had not taken measures to mitigate such risks re-occurring in the future.

26. The Representation updated the composition of the LCC in November 2017. OIOS review of LCC minutes and related documents indicated some weaknesses, such as lack of or late submission of cases to the LCC and avoidable waivers of competitive bidding. However, as these events happened in 2017 and OIOS observed an improvement in the functioning of the Committee and the quality and timeliness of submissions to it in 2018, no recommendation was raised in this regard.

(3) The UNHCR Representation in Ukraine should develop and implement an action plan to:
(a) strengthen vendor management; (b) monitor the status of purchase orders raised; and
(c) adopt measures to mitigate risks associated with the usage of email for tendering.

UNHCR accepted recommendation 3 and stated that the Representation would: deactivate duplicate vendors; undertake vendor performance reviews according to the policy; introduce a work plan to ensure regular monitoring of requisitions and purchase orders; and apply risk mitigation measures regarding the usage of email for tendering. Recommendation 3 remains open pending receipt of: (a) a sample of vendor performance evaluations undertaken; (b) VRC minutes discussing issues arising from vendor non-performance against their contractual obligations, if any; (c) evidence of inactivation of duplicate vendors; (d) evidence of monitoring the status of purchase orders raised; and (e) evidence of measures taken to mitigate risks associated with the usage of email for tendering.

D. NFI distribution and warehouse management

There was a need to verify the delivery of NFIs and strengthen controls over warehouse management

27. To ensure delivery of NFIs to the intended beneficiaries, it is important to: (a) establish beneficiary targeting criteria; (b) develop a distribution plan that is suitably communicated to recipients; (c) conduct post-distribution monitoring and reconciliation to ensure items reached the intended beneficiaries, and (d) effectively manage warehouses by implementing suitable record keeping and physical controls.

NFI distribution

28. The Representation distributed NFIs (bedding materials, household items, medical, hygienic supplies and apparel, construction and related equipment and materials, and material consumables) totalling \$4.4 million in 2017 and \$1.4 million in 2018 (up to the end of July). The Representation developed three standard operating procedures (SOPs) corresponding to three categories of assistance: (i) the distribution of NFIs and food to refugees and asylum seekers; (ii) the distribution of NFIs and shelter emergency kits to IDPs; and (iii) the distribution of shelter materials to IDPs as a component of the shelter programme. For these three categories, the Representation selected beneficiaries fairly, based on pre-defined vulnerability criteria, which was a major improvement from the previous OIOS audit when significant weaknesses were

observed in this area. In addition, the Representation established local supply frame agreements for procurement of standard packages and participated in inter-agency stock and warehouses inventory meetings.

29. Nevertheless, OIOS noted that the Representation did not conduct regular reconciliation of items delivered from the warehouses and items delivered to beneficiaries. It also did not conduct post-distribution monitoring of the distribution of NFIs and food to refugees and asylum seekers (assistance category (i)), although it did conduct post-distribution monitoring for the IDP programmes (assistance categories (ii) and (iii)).

Warehouse management

30. As of 31 July 2018, the Representation maintained three warehouses in Kyiv, Severodonetsk and Luhansk with a stock value of \$927,731. The warehouse in Severodonetsk was directly managed by the Representation, while the other two in Kiev and Luhansk were managed through a corporate vendor and a partner respectively. OIOS reviewed the warehouse documentation, visited the two warehouses in Kyiv and Severodonetsk and noted the following weaknesses in the Representation's management of warehouses:

- The Representation had not developed SOPs on warehousing and inventory management to clarify the roles and responsibilities of the Representation, the corporate vendor and the partner.
- The effectiveness of the Representation's physical verification of inventory was questionable because although it had prepared an inventory physical verification report dated 4 July 2018, it could not provide OIOS with any supporting documents such as an approved plan for the verification, a baseline MSRP report, an inventory count sheet, or a certification of completeness of inventories. Also, OIOS during its visit to the warehouse in Severodonetsk found 58 plastic tarpaulins which had not been included in the July 2018 report.
- At the two warehouses in Kyiv and Severodonetsk, the stock of timber totalling \$11,195 was kept outdoors without pallets and exposed to rain water and other weather hazards. In Kyiv, the timber was surrounded by cigarette butts, which constituted a violation of contractual obligations by the corporate vendor. Although the Representation must have observed such irregularities while conducting the physical verification, it did not take any corrective measures.
- In Severodonetsk, the Representation kept important documents including goods received notes, and waybills and delivery notes at its Field Office, instead of at the warehouse, although such documents were indispensable to the daily warehouse operations.
- Security measures at the warehouse in Severodonetsk were inadequate. For example, there were no fire extinguishers or proper signage. In addition, the alarm system did not function. Finally, the Representation could not provide OIOS with a certificate indicating the date when the alarm system was last tested or the results of the test.
- In addition to the three warehouses, the Representation prepositioned NFIs and shelter kits at three warehouses and seven storage facilities of another partner, in anticipation of further needs. Such items valued at \$94,452 as of July 2018 were not covered by insurance.

31. The weaknesses mentioned above were caused mainly by inadequate prioritization by management of the need to implement a solid control framework over NFI distribution and warehouse management. The weaknesses were recurring, because the 2015 OIOS audit had raised a critical recommendation for the Representation to strengthen its mechanisms over NFI supply chain. Although OIOS had closed the recommendation based on documentation provided by the Representation, OIOS still observed some persisting weaknesses. As a result, there was an increased risk that NFIs and food may not have reached the intended beneficiaries and inventories may not have been adequately accounted for and safeguarded.

(4) The UNHCR Representation in Ukraine should strengthen management monitoring and accountability over non-food item distribution and warehouse management, and establish: (a) controls to verify the delivery of non-food and other items through regular reconciliations and post-distribution monitoring; and (b) standard operating procedures for effective physical verification of inventory, warehouse documentation, and security measures at warehouses.

UNHCR accepted recommendation 4 and stated that the Representation would: review and improve its warehouse and inventory management and advise partners on managing pre-positioned UNHCR stock in their custody; and review and update local SOPs and assign focal points to improve tracking and verification of material assistance provided to persons of concern. Recommendation 4 remains open pending receipt of: (a) regular reconciliations between way bills and distribution reports with lists of beneficiaries and their signatures for all three warehouses; (b) post-distribution monitoring reports for the distribution of NFI and food to refugees and asylum seekers; (c) SOPs for warehouse and inventory management; (d) inventory physical verification reports supported by an approved work plan, baseline MSRP report, and inventory count sheets; (e) evidence that warehouse documentation is kept at the warehouse in Severodonetsk; and (f) evidence of firefighting arrangements and results of a test of alarm system for the warehouse in Severodonetsk.

E. Cash-based interventions

There was a need to obtain clearance for SOPs over CBI and conduct post-distribution monitoring of CBI projects for refugees and asylum seekers

32. In order to ensure effective programming and delivery of CBI, it is essential to adequately plan and design the CBI programme including: a) undertaking a risk assessment and assessing the feasibility of such a programme; b) developing SOPs governing the selection criteria, value of transfers and operational modalities, and ensuring that the partners establish effective procedures, criteria and financial controls for CBI; c) monitoring whether beneficiaries are able to secure their basic needs; and d) establishing an exit strategy to avoid persons of concern depending on the programme in the long term.

33. The Representation had three groups of CBI projects: (i) Monthly Subsistence Allowance (MSA) and other CBI projects for refugees and asylum seekers, with expenditure for 2017 and budget for 2018 amounting to \$245,855 and \$315,000 respectively; (ii) Individual Protection Assistance (IPA) and winterization cash programme for IDPs, with expenditure for 2017 and budget for 2018 totaling \$909,499 and \$600,000 respectively; and (iii) cash component of shelter programmes to be paid to IDPs to hire labour necessary to repair houses damaged by shelling, with expenditure for 2017 and budget for 2018 amounting to \$324,226 and \$625,000 respectively. The Representation directly implemented groups (i) and (ii), while group (iii) was implemented by two partners. For all the groups, the selection of beneficiaries was fairly conducted. Nevertheless, the following remaining weaknesses were noted by OIOS:

- In respect of the cash component of shelter programmes implemented by the two partners, an assessment of comparative advantage of direct implementation versus implementation by the partners had yet to be conducted, although UNHCR's preferred approach was direct implementation. At present, the partners were involved in the distribution of shelter materials and the payment of the cash component corresponding to labour cost. However, it was worth considering whether or not the Representation should directly pay cash to beneficiaries, taking into account the cost-benefit of the two modalities and the effectiveness of monitoring controls over the partners.

- Regarding SOPs related to direct implementation, only those related to IPA were cleared by the CBI Section of the Division of Programme Support Management and Treasury and Cash Service of the Division of Financial and Administrative Management. OIOS observed that the SOPs for MSA and other CBI projects for refugees and asylum seekers did not cover the distribution of winterization grants and prepaid shopping cards of a retailer chain to purchase food and hygienic items. The SOPs also did not stipulate requirements for post-distribution monitoring. Furthermore, the SOPs did not sufficiently elaborate financial management procedures, including for record-keeping, resulting in original MSA minutes with signatures to select beneficiaries scattered among payment vouchers.
- Both the Country Office in Kyiv and the Sub Office in Sloviansk used operational bank accounts for CBI purposes, without opening separate CBI bank accounts. In both cases, the Representation did not request prior authorization of the UNHCR Controller, which was necessary to use operational bank accounts, although this was requested by the Representation and approved by the Controller while the audit was in progress.
- For CBI projects for IDPs, post-distribution monitoring was conducted as envisaged. For CBI projects for refugees and asylum seekers, however, post-distribution monitoring was conducted only for the winterization grants and the prepaid shopping cards.

34. These shortcomings occurred because the Representation did not prioritize CBI projects for refugees and asylum seekers due to the previous high turnover of staff and long vacancies in certain programme posts. This raised the risk of project objectives not being achieved and CBI resources not being adequately safeguarded.

(5) The UNHCR Representation in Ukraine should strengthen controls over cash-based interventions (CBI) by: (a) assessing the comparative advantage of direct implementation over implementation through partners; (b) ensuring that all standard operating procedures are cleared by headquarters; and (iii) conducting post-distribution monitoring of all CBI projects for refugees and asylum seekers.

UNHCR accepted recommendation 5 and stated that the Representation completed the analysis of the comparative advantage of implementing CBI through partners as opposed to through direct implementation as part of the procurement delegation review during 2019 PPA preparation. It also stated that the Representation would update its CBI SOPs for the refugee programme and submit for clearance to the CBI Unit at headquarters, and extend post-distribution monitoring to all CBI assistance programmes. Recommendation 5 remains open pending receipt of: (a) the complete set of SOPs cleared by headquarters; and (b) a sample of post-distribution monitoring reports for all CBI projects for refugees and asylum seekers.

F. Favourable protection environment and government relations

The Representation implemented effective controls over activities related to favourable protection environment and government relations

35. In order to ensure persons of concern are able to enjoy a favourable protection environment it is essential for UNHCR to: a) accurately identify protection gaps and understand their impact on persons of concern; b) plan, deliver and monitor well-defined interventions designed to close these gaps; c) understand the concerns of the host government and have protocols for liaising with relevant officials to resolve

protection issues; and d) continuously monitor the impact of UNHCR and other interventions on the protection environment and adjust activities if needed.

36. The Representation's 2017 expenditure and 2018 budget related to this activity amounted to \$2.6 million. Under this activity, the Representation dealt with the following four objectives: "Access to legal assistance and legal remedies improved"; "Law and policy developed or strengthened"; "Administrative institutions and practice developed or strengthened"; and "Access to the territory improved and risk of refoulement reduced". Of the four objectives, "Access to legal assistance and legal remedies improves" was by far the largest, with 2017 expenditure and 2018 budget amounting to \$2.2 million and \$2.0 million respectively.

37. The Representation elaborated a multi-year protection strategy including a gradual exit strategy related to legal assistance, in addition to an annual protection strategy as a part of its operations plan. The strategies accurately identified protection gaps, and covered all IDPs, refugees and asylum seekers, and stateless persons. The Representation's SOPs for legal assistance were prepared in 2008 and covered only refugees and asylum seekers; however, the Representation envisaged to update them. In addition, the Representation's legal assistance for IDPs and stateless persons was adequately governed by guidance notes and the project descriptions in the PPAs with partners.

38. The Representation delivered well-defined interventions, for example: (a) to support a network of non-governmental organization partners providing persons of concern with free legal assistance; and (b) to build the capacity of staff members and collaborating lawyers of the State-run Free Legal Aid Centers, while liaising with relevant officials. Within this framework, in September 2018, a partner providing legal representation obtained the decision by the Supreme Court of Ukraine to support the pension rights of an internally displaced person from the non-government-controlled area. The Representation's performance for 2017 was in line with the targets set. Slight underperformance related to some of the indicators was mainly caused by delays in legislative procedures and the change of the calculation methodology.

39. Based on the above, OIOS concluded that the Representation had implemented effective controls over its activities related to favourable protection environment and government relations.

IV. 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 Ukraine 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 Ukraine should develop and implement an action plan to ensure the timeliness of the processes for: (a) designation of procurement to partners supported by an assessment of comparative advantage and an assessment of procurement capacity of partners; and (b) development of risk-based project monitoring plans.	Important	C	Action completed.	Implemented
2	The UNHCR Representation in Ukraine should establish effective monitoring mechanisms and develop and implement an action plan, with clear milestones and necessary budgetary provisions, to ensure that all staff meet the mandatory security training requirements.	Important	O	Submission to OIOS of evidence that all staff have complied with the mandatory security training requirements.	30 June 2019
3	The UNHCR Representation in Ukraine should develop and implement an action plan to: (a) strengthen vendor management; (b) monitor the status of purchase orders raised; and (c) adopt measures to mitigate risks associated with the usage of email for tendering.	Important	O	Submission to OIOS of: (a) a sample of vendor performance evaluations undertaken; (b) VRC minutes discussing issues arising from vendor non-performance against their contractual obligations, if any; (c) evidence of inactivation of duplicate vendors; (d) evidence of monitoring the status of purchase orders raised; and (e) evidence of measures taken to mitigate risks associated with the usage of email for tendering.	30 April 2019
4	The UNHCR Representation in Ukraine should strengthen management monitoring and accountability over non-food item distribution and warehouse management, and establish: (a) controls to verify the delivery of non-food and other items	Important	O	Submission to OIOS of: (a) regular reconciliations between way bills and distribution reports with lists of beneficiaries and their signatures, for all three warehouses; (b) post-distribution monitoring reports for the	30 June 2019

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

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

³ C = closed, O = open

⁴ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Ukraine 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
	through regular reconciliations and post-distribution monitoring; and (b) standard operating procedures for effective physical verification of inventory, warehouse documentation, and security measures at warehouses.			distribution of NFI and food to refugees and asylum seekers; (c) SOPs for warehouse and inventory management, for the three warehouses; (d) inventory physical verification reports supported by an approved work plan, baseline MSRP report, and inventory count sheets for the three warehouses; (e) evidence that warehouse documentation is kept at the warehouse in Severodonetsk; and (f) evidence of firefighting arrangements and results of a test of alarm system for the warehouse in Severodonetsk.	
5	The UNHCR Representation in Ukraine should strengthen controls over cash-based interventions (CBI) by: (a) assessing the comparative advantage of direct implementation over implementation through partners; (b) ensuring that all standard operating procedures are cleared by headquarters; and (c) conducting post-distribution monitoring of all CBI projects for refugees and asylum seekers.	Important	O	Submission to OIOS of: (a) the complete set of SOPs cleared by headquarters; and (b) a sample of post-distribution monitoring reports for all CBI projects for refugees and asylum seekers.	30 April 2019

APPENDIX I

Management Response

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Ukraine should develop and implement an action plan to ensure the timeliness of the processes for: (a) designation of procurement to partners supported by an assessment of comparative advantage and an assessment of procurement capacity of partners; and (a) development of risk-based project monitoring plans.	Important	Yes	Senior Admin/Programme Officer	30 January 2019	Ukraine operation has improved the timeliness of the identified programme-related processes. Partner procurement capacity was consistently assessed during the performance review for retention of partnerships in 2019; the cost-benefit analysis of partner procurement was undertaken during the PPA preparation stage; delegation of authority was granted together with the PPA, as applicable. The PPA risk assessment and risk-based monitoring plans for the 2019 programme cycle was finalized on 31/12/18,
2	The UNHCR Representation in Ukraine should establish effective monitoring mechanisms and develop and implement an action plan, with clear milestones and necessary budgetary provisions, to ensure that all staff meet the mandatory security training requirements.	Important	Yes	Field Safety Officer	30 June 2019	Ukraine operation has established a work plan and monitoring mechanism to ensure the timely renewal of all mandatory security trainings and will ensure compliance before 30 June 2019. Sufficient budget provisions for security measures, including mandatory trainings, have been included in the 2019 ABOD.
3	The UNHCR Representation in Ukraine should develop and implement an action plan to: (a) strengthen vendor management; (b)	Important	Yes	Supply Officer	30 April 2019	The Representation in Ukraine will inactivate duplicate vendors and will undertake vendor performance review according to the policy; introduce a

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

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

Management Response

Audit of the operations in Ukraine 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
	monitor the status of purchase orders raised; and (c) adopt measures to mitigate risks associated with the usage of email for tendering.					work plan to ensure regular monitoring of requisition and purchase orders; and apply risk mitigation measures regarding the usage of email for tendering.
4	The UNHCR Representation in Ukraine should strengthen management monitoring and accountability over non-food item distribution and warehouse management, and establish: (a) controls to verify the delivery of non-food and other items through regular reconciliations and post-distribution monitoring; and (b) standard operating procedures for effective physical verification of inventory, warehouse documentation, and security measures at warehouses.	Important	Yes	Supply Officer	30 June 2019	In order to improve accountability of material assistance, UNHCR operation will review and improve its warehouse and inventory management and advise partners on managing pre-positioned UNHCR CRI stock in their custody, in line with UNHCR policy. UNHCR will review and update local SOPs and assign focal points to improve tracking and verification of material assistance provided to persons of concern.
5	The UNHCR Representation in Ukraine should strengthen controls over cash-based interventions (CBI) by: (a) assessing the comparative advantage of direct implementation over implementation through partners; (b) ensuring that all standard operating procedures are cleared by headquarters; and (iii) conducting post-distribution monitoring of all CBI projects for refugees and asylum seekers.	Important	Yes	Senior Admin/Programme Officer	30 April 2019	Ukraine operation has completed the analysis of the comparative advantage of implementing CBI through partners as opposed to through direct implementation as part of the procurement delegation review during 2019 PPA preparation. The operation will update its CBI standard operating procedures for the refugee programme and submit for clearance to HQ CBI Unit, and extend post-distribution monitoring to all CBI assistance programmes.