

Internal Audit of the Republic of Yemen Country Office

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Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Republic of Yemen Country Office. The audit sought to assess the office's governance, risk management and internal controls. The audit team visited the office from 3 to 23 October 2016. The audit covered the period from January 2015 to September 2016.

The 2012-2017 country programme has six main components: *Health and Nutrition; Water, Sanitation and Hygiene; Basic Education and Gender Equality; Child Protection; Social Inclusion; and Communication for Development*. There is also a cross-sectoral component. The total approved budget for the 2012-2017 country programme is US\$ 861 million, of which US\$ 37 million is Regular Resources (RR), US\$ 234 million is Other Resources (OR), and US\$ 590 million is Other Resources Emergency (ORE). Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources are contributions that may have been made for a specific purpose, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as Other Resources), up to the approved ceiling.

The country office is located in the capital, Sana'a; there are five zone offices – in Sana'a, Sa'dah in the North, Hodeidah in the West, Ibb in the Centre and Aden in the South. Establishment of a sixth zone office in Mukalla was underway at the time of the audit.

As of September 2016, the country office had a total of 192 approved posts, of which 47 were for international professionals, 81 for national officers and 64 for general service staff. The total annual budgets were US\$ 242 million in 2015 and US\$ 287 million in 2016.

The internal audit noted a number of areas where internal controls were functioning well, including that the Yemen Country Office had been able to swiftly adjust its programming to the UNICEF Level 2 emergency (declared in April 2015) and United Nations System-wide Level 3 emergency (declared in early July).¹ The prompt adjustment was particularly noteworthy in view of international staff having to be evacuated from Yemen during the first two months after the conflict escalated in March 2015.

In addition, despite the highly challenging operating environment, the office delivered life-saving supplies worth more than US\$ 35 million, provided direct cash transfers to implementing partners of more than US\$ 40 million a year, maintained effective working relationships with relevant parties, and deployed staff in five regions rated by the Security Risk Assessment (SRA) as high or very high security risk. Following a mission conducted in Yemen at the beginning of October 2016, the Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator praised UNICEF and the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) as being the only UN agencies that had a

¹ UNICEF defines an emergency as a situation that threatens the lives and well-being of a population and requires extraordinary action to ensure their survival, care and protection. There are three levels of emergency response: Level 1 – the scale of the emergency is such that a country office can respond using its own staff, funding, supplies and other resources, and the usual Regional Office/HQ support; Level 2 – the scale of emergency is such that a country office needs additional support from other parts of the organization to respond, and the Regional Office must provide leadership and support; and Level 3 – the scale of the emergency is such that an organization-wide mobilization is called for.

permanent international staff presence in all five UN hubs in Yemen.

Action agreed following the audit

The audit identified a number of areas where, particularly given the extremely challenging operating environment, further action needed to be taken to better manage risks to UNICEF's activities and thus increase the likelihood of achieving its objectives. In discussion with the audit team, the country office has agreed to take a number of measures to address these risks. Five are rated as high priority – that is, requiring immediate management attention. These are as follows.

- Ensure sufficient assurance activities are implemented, prioritizing high-risk partners with significant volumes of cash transfers; establish milestones for, and ensure the effective implementation of, assurance activities; and implement procedures to ensure systematic follow-up of key recommendations from the micro-assessments and assurance activities, and properly monitor their implementation.
- Improve Situation Reports at the zone-office level; establish a mechanism to ensure results in donor and annual reports are supported with adequate evidence; and review progress against planned results in donor reports.
- Strengthen travel planning and ensure that no staff members travel without approval; establish a quality-assurance mechanism for field-trip reports; strengthen programme monitoring and evaluation support to zone offices through on-site visits; strengthen oversight of third-party monitors; and consider limiting third-party monitoring to the implementation of activities and accuracy of partners' reporting.
- Ensure regular reporting to the Country Management Team on the performance of NGO partnerships; reduce the office's allocation to indirect programme costs; improve consistency and accuracy of budgets in partnership documents; and allocate further resources to monitoring programme cooperation agreement budgets.
- Ensure distribution plans are submitted for programme supplies before approval of sales orders; establish a clear information flow between the Djibouti logistics hub and the Yemen Country Office to enable better planning; closely monitor outstanding deliveries of supplies against the agreed target arrival dates; systematically share end-user monitoring reports with the supply unit; and clearly indicate contingency supplies in the supply plan, ensuring that the country office is involved in their release.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over the office needed improvement to be adequately established and functioning.

The Yemen Country Office, the Middle East and North Africa Regional Office, relevant headquarters divisions and offices, and OIAI will work together to monitor implementation of the measures that have been agreed.

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Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

Audit observations

Assurance over direct cash transfers to partners

The offices of several UN agencies, including UNICEF, manage direct cash transfers (DCTs) through the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs. HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of partners expected to receive US\$ 100,000 or more per year from UNICEF. At country level, HACT involves a macro-assessment of the country's financial management system; in Yemen this had not been updated since 2008 due to the security and political situation.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring, scheduled audits and special audits as appropriate.

Direct cash transfers (DCT) were the largest single input of the Yemen country programme, representing 46 percent of total expenditure in 2015, and 52 percent in 2016 as of 1 August. In 2015 the office transferred US\$ 44 million to 149 partners. Of these, 83 were governmental partners, accounting for 57 percent of the funds, and the remainder were NGOs. As of 13 September 2016, there were US\$ 27.9 million of DCTs outstanding, which the audit team regarded as reasonable given the disbursement pattern; less than 0.5 percent of this amount had been outstanding over nine months.

The office chaired the inter-agency HACT group in Yemen, and recruited, in May 2015, a programme specialist dedicated to HACT. The office had also established its own HACT task force in 2016.

Even in a Level 3 emergency such as that in Yemen, HACT activities are still meant to take place, although they are clearly affected by the security situation. The office reported that 33 out of the 87 implementing partners that required a micro-assessment over the period 2015-2016 had been assessed. In 2016, it planned to micro-assess 41 out of the relevant 82 partners, on the basis of available resources and previous experience. Meanwhile, those partners not assessed were correctly treated as high-risk. However, the audit team found that key recommendations from the completed micro-assessments had not yet been followed up.

There was also a shortfall in other assurance activities. The office said it had become increasingly difficult for UNICEF staff to carry out field monitoring visits after March 2015,

when the security situation deteriorated further. As a mitigation measure, in October 2015 the office had contracted a company to provide additional support for field monitoring (see following observation, *Field monitoring*), and to conduct spot checks in areas that were not accessible to UNICEF staff. In addition, the office nominated 11 staff members from the main country office and in all the zone offices to conduct spot checks on partners located in accessible and secure areas.

For the year 2015, the implementation rate of planned HACT assurance activities was 107 out of 274 for programmatic visits and just four out of 139 for spot checks. For 2016, as of mid-year, only 32 percent of the planned programmatic visits² and 12 percent of the planned spot checks were completed. Moreover, at that time, no assurance activities at all had been conducted for 36 partners rated as high risk.

There should also be audits of any implementing partners expected to receive more than US\$ 500,000 during the programme cycle. In 2015, only eight of the 21 scheduled audits took place, and all were carried out by another UN agency as audits of shared partners. For 2016, as of the time of the audit in October, no scheduled audit (out of 36 planned) had been completed. The office also lacked a process to track the implementation of recommendations from micro-assessments and HACT assurance activities.

The audit notes that the poor security environment made some HACT assurance activities far more difficult than they might be in normal circumstances. However, the low rate of assurance activities is a critical concern in an operating environment marked by high risk of corruption, scarcity of local currency and problems in regular payment of salaries. Although the assurance activities were monitored through monthly programme coordination meetings, there was no evidence that the low rate of implementation triggered a discussion within management on the causes and impacts. Neither were there any recommendations or action points to address the significant gaps, or to accept the resulting risk levels.

Agreed action 1 (high priority): The country office agrees to:

- i. Strengthen controls to ensure that sufficient risk-based assurance activities are implemented to provide the necessary level of assurance, and that priority is given to high-risk implementing partners with significant volumes of cash transfers.
- ii. Establish milestones for, and ensure the effective implementation of, Harmonized Approach to Cash Transfers (HACT) assurance activities.
- iii. Ensure that, in case of low performance in HACT implementation, the HACT focal point flags issues that need management attention and report them to the Programme Coordination Meeting and Country Management Team³ for review and action.
- iv. Implement procedures to ensure systematic follow-up of key recommendations from micro-assessments and assurance activities, and monitor their implementation.

² According to the latest UNICEF-specific HACT procedure issued in 2014, programmatic visits are defined as “a review of progress towards achievement of planned results, challenges and constraints in implementation and ways to address them performed with the partner at the programme site. Depending on the nature of the partnership, programmatic visits may be undertaken at a field location (field monitoring), the partner’s office and/or in the form of a meeting involving key stakeholders. Programmatic visits focus on programmatic issues, including attention to matters of financial management.”

³ An office’s country management team (CMT) advises the Representative on the management of the country programme and on strategic programme and operations matters. It consists of senior staff from Programme and Operations sections, and staff representatives.

Responsible staff members: HACT Specialist, Chiefs of Sections, and Chief of Field Operations
Date by which action will be taken: July 2017

Field monitoring

One of the office's priorities for 2016 was to further improve monitoring through a strengthened zone office presence. The country office had developed a comprehensive standard operating procedure for field monitoring, and various field-monitoring tools. Moreover, a workflow had been established clearly outlining the role and responsibilities of all key participants. The audit noted the following.

Field trips: At the time of the audit visit (October 2016), the staff had made 244 field trips that year – a large increase on 2015, when UNICEF staff were evacuated from most of Yemen. There might have been more had the office not denied 16 percent of requests to make such trips, in most cases because of late submission of requests for approval. The audit noted that a significant number of trips (52 cases) were approved by the budget owner after the start date of the trip – although there was a comprehensive security clearance process in place and no trip was undertaken without proper security clearance.

Field monitoring should be linked to HACT programmatic visits to ensure assurance activity requirements are met (see previous observation). However, the office did not prepare an office-wide travel plan that linked field monitoring with HACT programmatic visits. Instead, each programme section and each zone office devised their own monthly travel plans. This increased the risk of inefficiencies in monitoring and assurance activities.

The country office had a database (Action Tracker) with which to monitor the implementation of recommendations coming out of field visits, and zone offices were expected to formally communicate findings to partners following field or monitoring visits. Despite this, the office did not always follow up recommendations, and only three out of eight partners interviewed by the audit team had received formal communications outlining key issues and action points noted during monitoring visits.

Trip reports: Trip reports are the main vehicle for communicating the results of field monitoring. The audit reviewed six recent field-monitoring reports, related to the Health & Nutrition, WASH,⁴ C4D⁵ and Education programmes. It found feedback had been obtained from the target population. However, reports lacked specificity, and programme implementation was not assessed against expected achievements.

Bottlenecks and barriers to programme implementation were generally not identified and analyzed. In five out of six reports, there were no recommendations made even though important issues were raised. For example, one report simply stated that a hospital was still closed without determining the cause and making a recommendation. Another report noted that the main gap in the city sanitation chain was the absence of refuse bins, but did not say how this issue could be resolved.

Overall, the sampled reports needed significant improvement as they did not provide a clear picture of programme implementation status and of the actions required to achieve planned

⁴ Water, Sanitation and Hygiene.

⁵ Communication for Development.

outputs.

Third-party monitoring: The escalation of the conflict in late March 2015 had restricted the office's ability to undertake field missions using its own staff. In line with good practice, to help fill the gap, the office had contracted a local company to provide third-party monitoring services – that is, monitoring carried out for UNICEF under contract, instead of by UNICEF staff. Third-party monitoring visits began in November 2015 and a total of 107 had been conducted by 31 December 2015. In the period January to September 2016, an additional 421 third-party monitoring trips were completed.

The office had produced reporting templates, monitoring guidelines and checklists for the third-party monitors to use. The third-party monitoring had been linked to that conducted by UNICEF's own staff so that there was a coordinated workflow. The audit team found that the office had designed the approach so as to be able to end third-party monitoring as soon as the security situation enabled it to resume its own monitoring activities. (This was expected to happen first in Hodeidah and Sana'a.)

However, the audit noted the following.

Quality of third-party monitoring reports: The audit reviewed five recent reports from monitoring trips carried out by the contractor. According to the contract, the key objectives were to verify progress reports submitted by implementing partners, assess the quality of services as per the agreed standards, identify gaps in delivery of services (including supplies), and identify any emerging issues that needed urgent attention by UNICEF. However, the following was noted.

- The links to workplan outputs and targets were not established.
- None of the sampled reports assessed progress at the level of results (outputs).
- The third-party monitor did not test the accuracy of results reported by partners in their activity reports to UNICEF.
- The planned against actual results were not compared. The reports simply outlined the activities undertaken.
- The quality of interventions was not always assessed.
- The focus of the feedback was on awareness of the interventions and not on how they could be improved.
- Only one sampled report included information on emerging or critical issues affecting children and women in the area.
- The template and checklist required third-party monitors to check whether interventions reached the most vulnerable and were gender-sensitive. All third-party monitors said they did this, but they provided no data to support their conclusion.

There was sometimes no link between the challenges to programme implementation identified in the reports and the action points. Thus one report recommended increasing water quantities for beneficiaries, even though no related weakness was identified in the report. Further, only one of the sampled five reports included a recommendation on increasing the visibility of UNICEF's support to interventions, although all five reports noted that beneficiaries had low awareness of UNICEF's role.

All the sampled reports concluded that implementation was on track. However, the results and the quality of interventions had not been sufficiently assessed to support this conclusion.

The audit also noted that, as was the case with UNICEF staff's own field monitoring, partners did not always receive feedback after a monitoring visit to help them improve their activities.

The zone offices and programme sections commented that the third-party monitors had important gaps in technical knowledge. However, the audit team noted that better oversight by UNICEF would have meant that the poor quality of reports was properly identified and addressed.

Agreed action 2 (high priority): The office agrees to:

- i. Strengthen the effectiveness and efficiency of travel planning and consider introducing an office-wide travel plan which is clearly linked to the assurance plan.
- ii. Ensure that no staff member travels without approval.
- iii. Establish a quality-assurance mechanism over field-trip reports.
- iv. Strengthen monitoring support to the zone offices through on-site visits.
- v. Improve oversight of third-party monitors, linking payment to specific deliverables such as the quality and completeness of monitoring reports; and enforce quality standards.
- vi. Review the scope of third-party monitoring in light of recent experience. Consider limiting the focus of third-party monitoring to the implementation of activities, the extent to which inputs are properly managed, and the accuracy of implementing partners' activity reports. (The quality of interventions and achievement of results might be better assessed through other means such as quality assurance reviews or evaluations.)
- vii. Monitor adherence to the workflow for field monitoring, including third-party monitoring, to ensure the zone-office travel plans are submitted in good time to field operations.
- viii. Ensure that the zone offices report to partners on findings coming out of field trips and third-party monitoring.

Responsible staff members: Representative, Deputy Representative, Chief of Planning, Monitoring and Evaluation, and Administrative Specialist

Date by which action will be taken: July 2017

Partnerships

The office worked with both governmental and NGO partners, but relied on the governmental partners to implement a substantial part of the humanitarian response. In 2015, 56 percent of partners (83 of 149) were governmental partners; they were allocated US\$ 25 million in cash transfers, 57 percent of the total for that year. From January 2015 to the start of the audit in October 2016, the office had also disbursed US\$ 25 million to implementing partners via the programme cooperation agreements (PCAs)⁶ with NGOs. The majority of the office's NGO partners in 2016 were national NGOs (41 of 52).

The office had drawn up a draft partnership strategy that took into account the Yemen context

⁶ Besides PCAs, UNICEF's offices can use small-scale funding agreements (SSFAs), which are simpler. The guidelines for partnerships are set out in UNICEF's 2015 document *Procedure For Country And Regional Office Transfer Of Resources To Civil Society Organizations* (FRG /PROCEDURE/2015/001), which introduces a number of changes (for example, SSFAs may now be used up to a threshold of US\$ 50,000).

and partners' capacity. However, it did not address recommendations the regional office had made to the Yemen office with regard to its partnership strategy. These were that it should capture how the office would:

- diversify partner selection;
- manage risks of partners that may be technically solid but politically sensitive;
- encourage more cross-sectoral partnerships; and
- build longer-term partnerships at the local level that go beyond humanitarian response.

On 15 June 2016, the office issued a standard operating procedure on PCAs. The audit reviewed nine PCAs (representing 15 percent of all PCAs issued during the period covered by the audit). It noted the following.

Transaction time: On average, it took 31 working days from programme sections submitting the programme document to the PCA Review Committee to approving the PCA. In three cases, it took more than 50 working days to finalize the PCA. The office said that the lengthy approval process included multiple internal reviews. The office did not apply the simplified PCA process that UNICEF permits under a Level 3 emergency. The delay in finalizing PCAs increased the risk of late delivery of services.

Indirect and direct programme costs:⁷ In five out of nine PCAs, more than 25 percent of UNICEF's contribution went to indirect programme costs. (There is no fixed standard for this, but the audit regarded more than 25 percent as quite high.) In three cases, 40 percent or more was allocated to indirect programme costs. The indirect programme cost allocation was the largest for the partnerships with international NGOs.

In only two sampled PCAs did implementing partners contribute more than 10 percent to direct programme implementation costs. In three of the five PCAs reviewed that were with international NGOs, the partner contributed 5 percent or less to direct programme costs.

Quality of PCA submission documents: In four out of the nine sampled PCAs, there were inconsistencies in the budgets in sections of the agreement. This could cause confusion or disagreement later. Better quality assurance review of the PCAs by the section chiefs would have identified this issue and allowed it to be addressed.

Four out of the nine sampled PCAs were signed after the issue of the standard operating procedure (SOP), which should have addressed them; this suggests that the SOP was not being followed. Further, the chair of the Partnership Review Committee⁸ had not yet reported to the CMT on performance of partnerships against organization-wide benchmarks. According to UNICEF's guidelines on working with NGOs (*Procedure for Country and Regional Office Transfer of Resources to Civil Society Organizations*, 2015), this should be done at least quarterly, and monthly for emergency activities.

Agreed action 3 (high priority): The country office agrees to:

- i. Ensure that the Partnership Review Committee chair reports to the Country

⁷ Indirect programme costs encompass costs associated with programme management and Headquarters Support costs.

⁸ This is a committee in UNICEF offices that is mandated to review proposed PCAs.

- Management Team on the performance of partnerships with NGOs.
- ii. Complete the partnership strategy, taking into account the feedback from the regional office.
 - iii. Strengthen monitoring of the office's allocation to indirect programme costs so as to ensure efficient use of resources.
 - iv. Improve budgeting in PCAs, including allocation of further resources to monitoring and increasing the contribution of partners to direct programme costs.

Responsible staff members: Deputy Representative, Chief of Planning, Monitoring and Evaluation, and HACT Specialist

Date by which action will be taken: July 2017

Programme supplies

In 2015, expenditure on programme supplies was US\$ 20.3 million, 21 percent of annual expenditure. From January to 1 August 2016, it was US\$ 15 million, approximately 18 percent of total expenditure, with goods-in-transit worth a further US\$ 3.7 million. Supply was the second largest input of the country programme, after direct cash transfers to implementing partners. Most was related to the humanitarian response in the areas of health, nutrition, WASH and Education, and included – among other things – vaccines, therapeutic food, hygiene kits, water tanks and school kits.

The office's staff satisfaction survey (May 2016) showed low satisfaction of programme staff with supply services. Delivery and warehousing of goods received the lowest satisfaction score. The audit team met one major governmental partner, who confirmed that delivery of supplies in the country needed to be further improved by the office.

The audit recognizes the extremely challenging operating environment for supply and logistics. Unexpected events can cause significant disruption to the whole supply chain. Particular challenges include a shrinking local market, congestion at the main entry port of Hodeidah (which had been damaged by airstrikes), and lengthy negotiations with the various parties to the conflict to obtain access. Distribution of supplies to final destinations inside the country is difficult – particularly in Aden and Mukalla, due to ground fighting and the presence of improvised explosive devices (IEDs). Supervision by international staff is intermittent, as the UN allocates only a limited number of slots for their presence in-country (see observation *Staff ceiling and zone offices*, page 19 below).

Acknowledging these challenges, the audit noted the following.

Supply pipeline between Djibouti and Yemen: In order to overcome some of the constraints, supplies were procured mostly offshore. To this end, and with support from Supply Division, the office had opened a logistics hub in Djibouti in April 2015, to assist the forwarding of shipments to Yemen using dhows⁹ and charter flights. However, the office had as yet no procedure to provide the hub with a list of priority cargos to be sent from Djibouti's inventory. This information would have allowed the team in Djibouti to preposition these cargos and start the pre-clearance process, which could have saved considerable time. Currently Djibouti had to push the Yemen office to tell it what should be in the supply pipeline and how it should be consigned (by sea or by air), and this created delays in delivery of supplies from Djibouti to

⁹ A ship used in the Indian Ocean.

Yemen.

The office said that the reason was that most sales orders were processed without a distribution plan. The audit team reviewed a sample of seven sales orders, and did find that only two had a distribution plan. There was also no structured process for exchange of information between the office and Djibouti, including an agreed-upon format of the information expected from Djibouti. Instead, releases of supplies were negotiated on an *ad hoc* basis following pre-alerts from Djibouti and numerous exchanges of emails.

Timeliness of delivery: The country office supply unit did not regularly monitor the target arrival dates (TADs). The office said it used to monitor them, but had stopped since the emergency began. This meant that the office could not investigate and act promptly on any delays. The programme sections were also not informed of potential delays to enable them to adjust the related activities accordingly. Out of 161 sales orders raised in 2016 with a TAD due by 15 October 2016, 55 had yet to be delivered, being overdue by up to 199 days; a further 66 had been delivered, but after their TADs, with delays of up to 169 days. Only 40 sales orders (25 percent) were received within the TAD.

End-user monitoring: The programmatic visits conducted by third-party monitors as part of HACT assurance activities included end-user monitoring of supplies. However, these reports were not always shared with the supply unit for analysis, assessment of suppliers and use as reference for future procurements.

Supply contingency: In addition to the rolling workplans that incorporated the needs for the response to the L3 emergency, the office had prepared a supply contingency plan for emergency readiness in July 2016. It included this in its updated Early Warning-Early Action (EW-EA).¹⁰ However, out of three programme managers interviewed by the audit team, two stated that the supply estimates were not realistic and did not necessarily correspond to what would be needed in case of an emergency. Moreover, most of the supplies included in the contingency plan were stored in partners' warehouses and the office would not normally be involved in their movements. This increased the risk that contingency supplies might not be available in case of urgent need.

The audit team also noted that the office supply plans did not distinguish between the contingency supplies and those specified in the workplans, making it harder to factor the contingency plan into procurement plans.

Agreed action 4 (high priority): The country office agrees to:

- i. Ensure that distribution plans are submitted before the approval of sales orders, and that a clear information flow is established between the Djibouti logistics hub and the country office to enable better planning of the supply pipeline between Djibouti and Yemen.
- ii. Closely monitor outstanding deliveries of supplies against the agreed target arrival dates and proactively follow-up on any possible significant delays.

¹⁰ EW-EA is a UNICEF online system provides a framework and tools to support the monitoring of risks, indicators, triggers and changing conditions. The EW-EA online system consists of three elements: Preparedness; Early Warning; and Key Actions. All offices are required to update all their data in the EW-EA system in line with the specified requirements and based on the ratings on exposure to emergency risks.

- iii. Ensure that supply end-user monitoring reports completed as part of the programmatic visits are systematically shared with supply unit for analysis and consideration in future procurements.
- iv. Ensure that the estimates in the supply contingency plan are realistic; the contingency supplies are clearly indicated in the supply plan; and that the office is involved in their release.

Responsible staff members: Supply and Logistics Specialist, Chief of Field Operations and Chief of Planning, Monitoring and Evaluation

Date by which action will be taken: i and ii, the office reports the actions as having been completed; iii, June 2017; and iv, May 2017

Management of knowledge and data

Sound knowledge of the situation of children and women in a country is fundamental to identify focus areas for interventions. UNICEF offices normally prepare a Situation Analysis (SitAn) during each programme cycle to help plan the next one. The office had done this in 2014. Also, it had done 20 nutrition surveys that appeared to have provided adequate information in the period covered by the audit. However, the audit noted the following.

Humanitarian situation: UNICEF's humanitarian performance management system had supported the collection and analysis of quantitative data with regard to service provision. MIRA (Multi-Cluster/Sector Initial Rapid Assessment) was used to determine the needs of people affected by emergencies. The child protection section used implementing partner reporting, International Organization for Migration (IOM) data on population movement, UNHCR's protection monitoring, and the UN's Monitoring and Reporting Mechanism (MRM) on grave violations of children's rights in situations of armed conflict.

However, data on quality at the output level was largely absent, as this type of information was not captured in the office's system. For example, the office did not have data on the quality of psychosocial services, educational services or water provided through boreholes (the latter due to insufficient water testing facilities at the decentralized level). The absence of data could affect the office's ability to make timely adjustments to programme design where required.

PRIME¹¹ implementation: The office had prioritized key research activities. Due to the Level 3 emergency response, the office had uploaded seven activities to PRIME in 2016. In practice, four PRIME activities were not implemented on time, but in its April 2016 update the office said that all seven either had been or were on schedule. On a positive note, however, the audit team noted that one of the activities that was on track was a process evaluation of UNICEF's humanitarian assistance in the emergency response. This will help the country office and UNICEF more broadly both to evaluate its results and learn lessons to improve future performance.

Information management officers: The office had a comprehensive approach to knowledge management. Through an institutional contract, the office had information management officers (IMOs) working in clusters in every zone office and each programme section. Two

¹¹ PRIME (Plan for Research, Impact Monitoring and Evaluation) is an electronic tool used by UNICEF country offices, regional offices and headquarters to share information about future and ongoing evaluations, research, studies and monitoring and evaluation (M&E) capacity-development activities.

programme sections had two IMOs each. Their role was to enhance the availability of reliable and predictable data; support programme monitoring in both development and emergency settings; assist measurement of progress on UNICEF planned objectives; compile programme data on availability of programme supplies; contribute to situational analysis; improve quality of service delivery; and identify service gaps.

The audit noted that the IMOs were not always sufficiently integrated into the two programme sections, and did not participate in section meetings, so were not fully aware of programmatic discussions. Moreover, the IMOs did not receive PCAs and were thus not always aware of which partners implemented what and where. It was also noted that third-party monitoring reports and field-monitoring reports were not shared with the IMOs. This lack of integration constrained information initiatives that could have better supported the sections' programmatic needs.

Agreed action 5 (medium priority): The country office agrees to:

- i. Monitor and improve the quality of its reporting of PRIME activities.
- ii. Obtain data on the quality of services provided in WASH, education and child protection areas.
- iii. Further integrate information management officers in programme sections.

Responsible staff members: Chief of Planning, Monitoring and Evaluation, Chiefs of Sections and Chief of Field Operations

Date by which action will be taken: December 2017

Budget management

As of 15 October 2016, the programme budget for 2016 amounted to US\$ 197 million, of which US\$ 7.7 million (4 percent) were Regular Resources (RR), US\$ 56.6 million (29 percent) were Other Resources (OR), and US\$ 132.7 million (67 percent) were Other Resources Emergency (ORE). Out of this amount, US\$ 147.8 million (75 percent) had so far been utilized. The budget (including programme funding, fund utilization by expenditure type and status of funds decentralized to zone offices) was monitored regularly. However, the audit noted the following.

Planned budget in VISION: For 2016, the planned budget recorded in the VISION¹² system was US\$ 5 million higher than the approved budget. Also, the budgets in the 2016 workplans were not aligned with the approved ceilings. For three programmes, they were significantly lower than the ceiling (from 19 to 38 percent), while for three others they were significantly higher than the ceiling (ranging from 47 percent to 87 percent). The office was not aware of these discrepancies.

The projected ORE amounts – that is, those requested in the HAC¹³ – were not recorded in

¹² VISION (from Virtual Integrated System of Information) is UNICEF's management system. Resource mobilization, budgeting, programming, spending and reporting are all recorded in VISION, along with much other information.

¹³ HAC stands for Humanitarian Action for Children. An HAC is an appeal that UNICEF launches for assistance for a particular crisis or emergency response, and will state how much UNICEF thinks it needs to raise for a given situation. The appeals page is at <https://www.unicef.org/appeals/>; the page for Yemen can be found at <https://www.unicef.org/appeals/yemen.html>.

VISION. The office said that it had thought recording these was optional. Further, the office did not maintain an alternative monitoring system to ensure funds received were allocated in line with the provisions of the HAC. Despite the lack of system, the audit did find that the ORE funds received were still within HAC ceilings as of October 2016.

The planning levels for OR were not aligned with the actual situation of programme implementation. For example, the planned budget for one output was US\$ 10.5 million, while the funded amount was US\$ 29.7 million and the utilized amount was US\$ 17 million. At the same time, there were two outputs with planned budgets for which no funding had been secured. This was due to the fact that the budget planning levels of the outputs had not been adjusted to reflect the reality of the current country programme, where service delivery and emergency activities took precedence over the regular programme activities. Further, the budget was monitored by the programme coordination meeting at the outcome level but not at the output level,¹⁴ which might explain why these discrepancies went undetected.

Funding sources: Given the short duration of emergency grants and unexpected challenges in implementation of activities, the office resorted to the procedure of changing funding source to avoid losing funds that were about to expire. The audit reviewed two examples. In one case, the justification was not captured in corporate systems and in the other one, the justification recorded did not explain the reason for change of the funding source.

The audit team interviewed programme managers who confirmed they were not fully aware of the conditions that allow changing the funding source. There were also cases where funds released by one programme were used by another. The process to change the funding source was not documented and programme staff had not been briefed on it. This had reduced assurance that funds were spent in line with the donor conditions and UNICEF standards.

Agreed action 6 (medium priority): The office agrees to:

- i. Investigate the discrepancies between the approved budget and the budget recorded in VISION and ensure their alignment.
- ii. Review the workplan budgets against the ceilings and record the justification for any significant deviations.
- iii. Record the Other Resources Emergency (ORE) planning amounts in VISION in line with the Humanitarian Action for Children ceilings.
- iv. Adjust the planning amounts of Other Resources (OR) at the output level in VISION to reflect accurately the resources needed to implement the programme.
- v. Establish a process for changing funding sources, and brief programme staff accordingly.

Responsible staff members: Chief of Planning, Monitoring and Evaluation and Finance Specialist

Date by which action will be taken: July 2017

¹⁴ UNICEF programmes plan for results on two levels. An outcome is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would. Whether or not a result is being delivered can therefore be expressed at either output level (i.e. activities performed) or outcome level (change in situation of target group). It is the outcome level that is ultimately the most meaningful.

Setting results targets and analyzing performance

A review of UNICEF-led cluster targets and other UNICEF targets found that they were significantly below the needs of the affected population in 2015. Some of the targets had gradually increased in the course of the emergency response, though there was no clear trend in this regard. For example, in the area of Child Protection, the cluster and UNICEF targets for two out of three HAC indicators had been reduced in January 2016, despite the fact the UNICEF's end-year 2015 result exceeded the new 2016 target.

One of the causes for the fairly conservative targets in 2015 (*vis-à-vis* the needs of the affected population) was a capacity gap in the initial stages of the response. Many international NGOs had pulled out of Yemen following the escalation of the conflict and uncertainty as to how the crisis would affect the government's ability to deliver services. Moreover, the office noted that OCHA advocated that targets should be realistic. This translated into the establishment of conservative cluster targets, and UNICEF's were a sub-set of these. In fact, UNICEF targets at the national level had increased in 2016. However, the zone-office targets were not then realigned with the national targets, and the resulting discrepancy between the targets were significant, at up to 25 percent.

The audit also reviewed performance against the 2015 HAC targets and found the office had exceeded them for five out of 11 indicators. The lowest performing areas were Education (23 percent of the target achieved for number of children reached by schools supported by the UNICEF-led cluster) and Social Protection (26 percent of the target achieved of the indicator *Number of affected people assisted with cash transfers*). The office had not systematically determined the causes of lower-than-expected performance.

The office reported that six out of the eight outcomes were on schedule at year-end 2015. The two outcomes that were constrained were the Education and Social Policy programmes. The causes had not been analyzed. At the output level, 20 were on-track (53 percent), 17 constrained (45 percent), and one discontinued. The audit team had planned to visit project sites in Sa'dah and Hodeidah to observe and verify the achievement of reported results, but the visits had to be cancelled due to inadequate security.

Agreed action 7 (medium priority): The office agrees to:

- i. Determine the cause of the lack of alignment between the results targets in VISION and those of the Humanitarian Appeal for Children, and put in place a process for ensuring results alignment. This process should also cover alignment between national-level and zone-office targets.
- ii. Determine the cause of lower-than-expected performance for the Education and Social Policy programmes, and revise its strategy and planned activities accordingly.

Responsible staff members: Deputy Representative, Chief of Planning, Monitoring and Evaluation and Chief of Social Policy

Date by which action will be taken: i, June 2017; ii, the office reports the action as having been completed

Reporting

The audit reviewed the accuracy and adequacy of three major types of reports through which the office accounted for the use of resources and achievement of results for children.

Internal and external Situation Reports (SitReps): UNICEF offices in humanitarian emergencies use SitReps to raise awareness of the humanitarian situation of women and children, communicate UNICEF's progress in meeting their needs, and determine the scope of humanitarian response where UNICEF is cluster lead (WASH, Nutrition, Education and Child Protection sub-cluster). A revised global template for SitReps was issued in May 2016.

The country office's SitReps had been timely and informative. The zone-office SitReps, which were expected to feed into the office-wide ones, largely consisted of tables of data that were already available to the reports officer in the country office through the humanitarian performance monitoring system. Further data was required from the zone offices on the situation of women and children in their area of operation, including information on the challenges and key results achieved. Also, increased attention to human interest stories would have supported advocacy for international support.

Annual report: The 2015 annual report was submitted on time and was informative. However, the audit tested a sample of five reported achievements and noted that adequate supporting documentation was available for only three of the five result statements, despite the audit's request for the remainder.

Donor reports: These are key accountability documents. The office had a process for their quality assurance review. In 2015, 13 out of the 15 donor reports were submitted on time; in 2016, 21 out of 23 were, and the remaining two were delayed for specific reasons.

The audit reviewed two donor reports and noted that the results achieved were not systematically compared with those that had been planned. During interviews with the audit team, the two donors highlighted results reporting as an area for improvement. However, they also said they relied heavily on UNICEF analysis because they had no presence on the ground. The Representative's analysis and briefings during calls had been particularly appreciated by the donors. The audit tested a sample of four reported achievements and noted adequate supporting documentation was available for three of the four result statements. Again, the audit team did request the documentation for the remaining one, but it was not available.

Agreed action 8 (high priority): The country office agrees to:

- i. Improve Situation Reports at the zone-office level so that the situation of children and women, challenges and key results achieved are supported with narrative as appropriate.
- ii. Establish a mechanism to ensure the reported results in the annual and donor reports are all supported by sufficient evidence, and that this is signed off in each case by an appropriately senior manager.
- iii. Review progress against planned results in the donor reports, with explanations of shortfalls.

Responsible staff members: Deputy Representative and Chief of Field Operations

Date by which action will be taken: i, the office reports the action as having been completed; ii and iii, August 2017

Decentralization to zone offices

The office had plans to decentralize decision-making to the zone offices, allowing informed decisions to be made with a better understanding of the local context by staff in closer contact with the partners. Significant progress had been made in this decentralization. As of the end of September 2016, US\$ 77 million had been allocated to zone offices, representing 81.5 percent of zone offices' planned budgets. The Aden and Taiz zone offices continued to lead with the highest utilization rate (72 percent and 71 percent respectively). Sa'dah zone office had the lowest utilization rate, with 50 percent. It was noticeable that in 2016, 84 percent of the total direct cash transfers to partners were processed at the zone-office level.

However, some partners noted that the development of programme cooperation agreements (PCAs) at subnational level had led to a lengthier PCA development process. This was perceived to be caused by insufficient capacity at sub-national level and by zone-office staff being unsure of their level of authority to make decisions. The chiefs of zone offices, on the other hand, commented that PCA development was still not fully decentralized, although full involvement of zone-office staff was required by both the office's standard operating procedures on PCAs and the decentralization framework. In some cases where PCAs covered multiple zone offices, the zone offices were involved only in the final stage of PCA development, reducing their ability to influence the project document and add value.

The office was already planning training in results-based management, which would improve the ability of zone-office staff to deal with PCAs – so no recommendation will be made with regards to capacity building of zone office staff. However, the audit identified another cause for the lengthy PCA development as delays in the roll-out of the office's plan for scaling up its humanitarian response. Delays in the scale-up plan had occurred as existing staff were recruited for newly-established posts, creating new vacancies and a lengthy on-boarding process for internationally-recruited staff. Once all recruitments are completed, zone offices should have adequate capacity to develop PCAs (see observation on *Human Resources*).

Finally, funds were not systematically allocated to zone offices on a quarterly basis. Instead, practices varied among programme sections. Some allocated funds quarterly; others transferred funds on an *ad-hoc* basis. According to the office, this was due to high reliance on short-duration emergency grants, and funds were allocated swiftly upon receipt. However, some programme sections were better able than others to smooth out the process of funds allocation. As regular transfer of funds helps zone offices to plan for optimal programme implementation, it would be desirable for all sections to follow this practice where possible.

Agreed action 9 (medium priority): The office agrees to:

- i. Establish a process for consistent quarterly allocation of funds to zone offices.
- ii. Involve zone office staff in the development of programme cooperation agreements (PCAs) by requiring partners to visit zone offices as part of the PCA development process, inviting zone-office staff to attend PCA discussions in Sana'a or conducting conference calls.
- iii. Speed up the roll-out of the scale-up plan.

Responsible staff members: Deputy Representative, Chiefs of Sections and Chief of Field Operations

Date by which action will be taken: September 2017

Cluster coordination

Humanitarian efforts in a country or crisis are often divided into “clusters” in which UN agencies, NGOs and other actors coordinate their actions on a particular topic; the cluster will be led by the body with the best expertise in that area. Thus FAO might lead a cluster related to food security, while UNICEF would lead clusters on education or child protection. Clusters build and maintain partnerships between international humanitarian actors, national and local authorities, and civil society.

Donors interviewed by the audit team said that cluster coordination had been a challenge in 2015 following the escalation of the conflict. Weaknesses had included poor functioning of sub-national clusters and inconsistency of data. The country office had taken steps to strengthen cluster coordination in 2016. They included upgrading the cluster coordinator positions as part of the PBR¹⁵ process. At the time of the audit visit, the office had recruited three out of four cluster coordinators. In the fourth case, interviews had been conducted but the final selection had not yet been done. There were generally arrangements in place so that cluster coordination could proceed uninterrupted when the cluster coordinators went on rest and recuperation (every four weeks). An exception was child protection, for which cluster coordination was put on hold when the coordinator was away from the duty station.

Despite the improvements noted above, cluster coordination at subnational level remained difficult, as some staff were in effect filling more than one post. They were thus often only able to allocate 5-10 percent of their time to the task of subnational cluster coordination (rather than the 40 percent that was required). On occasion, UNICEF and the clusters had sought to overcome the capacity gap by having international NGOs co-chair the subnational clusters. In three cases, cluster coordinators in Sana’a found co-chairing had improved the quality of cluster coordination at the sub-national level.

Agreed action 10 (medium priority): The office agrees to:

- i. Establish a backstopping mechanism for the child protection sub-cluster coordinator.
- ii. Assess the functioning of subnational clusters and identify ways of strengthening their ability to coordinate effectively.

Responsible staff members: Representative, Chief of Field Operations and Chief of Child Protection

Date by which action will be taken: July 2017

Staff ceiling and zone offices

The crisis in Yemen had led to an unanticipated growth of the country programme. The emergency response and decentralization had significantly increased the workload, particularly in the five zone offices. A sixth had been established in Mukalla and recruitment for its two positions had commenced at the time of the audit. The following was noted.

¹⁵ The programme budget review (PBR) is a review of a UNICEF unit or country office’s proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

International professionals (IP) staff ceiling: The approved IP staff structure included 47 positions. However, in view of the security situation, the number of UN personnel in-country had been capped by the UN Department of Safety and Security (UNDSS), which had approved a staff ceiling of 19 UNICEF staff members who could be in Sana'a at any one time (excluding three UNICEF security positions). To comply with this while meeting operational requirements, the office had established a slot matrix to closely monitor the staff ceiling and staff movement. However, if the 47 approved positions were to be filled, this meant that 25 IPs had to be located outside Sana'a, and the UNDSS had also capped the numbers of those who could be outside the capital, at 24 per agency.

The UN had not revisited this field staff ceiling of 24 that was approved for all UN system agencies. (No specific ceiling was identified for UNICEF.) The ceiling had constrained UNICEF work in Yemen, particularly field monitoring to support the implementation of programme activities. The office said that it would be possible for a further 16 UN staff members to be accommodated when a secure guest house, then under preparation in Aden, became operational by December 2016.

Zone offices: The staff in the Taiz zone office were relocated to Ibb in October 2015 due to the security situation. The office was planning to use the Ibb office for programme implementation and monitoring over the next five years. However, Ibb had not yet been designated as an official duty station by the International Civil Service Commission, and the Taiz office had not yet been closed as of October 2016. The office said that it did not know how long this situation would continue, and had not therefore started the process of designating Ibb as a new duty station. Given that the new Ibb zone-office location had not been entered in VISION, the Division of Human Resources had not established Ibb as a designated duty station in the Malicious Acts Insurance Policy (MAIP) that protects staff members in war zones.

Agreed action 11 (medium priority): The office agrees to:

- i. Develop a strategy and implement an action plan with a view to increasing the staff ceiling to enable a greater field presence.
- ii. Establish the Ibb office as a staff duty station in VISION and close the Taiz office, after obtaining required approvals in accordance with the organizational guidance to ensure adequate insurance protection of staff.

Responsible staff members: Representative and Human Resources Manager

Date by which action will be taken: The office reports the actions as having been completed

Recruitment

As of 20 October 2016, there were 34 vacant staff positions. The office had a well-defined process in place to fill the vacancies for National Officer (NO) and IP positions. The audit reviewed a sample of 10 recruitments (nine NOs and one IP) in 2015-2016 and found that it took from four to five and a half months from the date of the advertisement to issue of offer letter.

There were delays in each of the recruitment steps. From discussions with management, the audit identified these as follows:

- A delay in preparing the list of applicants and in following up with supervisors was caused by a shortage of HR staff.
- Delays in shortlisting the applicants and evaluating written examination results, caused by other competing priorities.
- A delay in receiving the regional office approvals, which was at times caused by vacancies in the regional HR section.
- A lack of qualified candidates.
- Problems in transferring local candidates from one region to another one within the country, especially between the North and the South, because of the current conflict.

In the case of IPs, even when the recruitment process was complete, it could take longer to get the staff member on board due to delays in obtaining visas.

The office had set very tight benchmarks for the different steps in the recruitment process considering the emergency situation, allowing only two to five days for each. These steps included the time taken for shortlisting, grading the written exams and obtaining approval from the regional office. While HR activities, including recruitment, were regularly reviewed in CMT meetings, achievement of the benchmarks set by the office were not monitored. In discussions with the chiefs of zone offices, it was noted that the delays in recruitment had at times significantly increased the workload of the remaining team members.

There was no handover process to ensure effective knowledge transfer from departing staff to their replacements. There were also inadequate work processes in place to help new staff members understand and perform their duties. This was particularly important where only one of the team members had access to the office due to the security situation, and were expected to carry out certain tasks normally assigned to other team members. The audit team also noted that when staff were in place, the office's objectives were not always sufficiently reflected in the objectives set for them.

Agreed action 12 (medium priority): The office agrees to:

- i. Design work processes and setup a handover process to ensure continuity.
- ii. Monitor the established recruitment benchmarks and take corrective actions in case of significant delays.
- iii. Target, to the extent possible, colleges and other educational institutions in each region to increase the scope of advertisement of recruitments.
- iv. Ensure the office's priorities are properly reflected in individual staff members' objectives in UNICEF's performance management system.

Responsible staff member: Human Resources Manager.

Date by which action will be taken: i, iii and iv, September 2017; ii, the office reports the action as having been completed.

Agreed action 13 (medium priority): The Middle East and North Africa Regional Office agrees to expedite and monitor its approval of recruitment of national staff against a benchmark agreed with the country office.

Responsible staff member: Regional Human Resources Specialist

Date by which action will be taken: December 2017

Simplified Standard Operating Procedures (SSOPs)

UNICEF's SSOPs apply where the UNICEF Executive Director has declared a Level 3 emergency and activated the Corporate Emergency Activation Procedure (CEAP).¹⁶ The objective of the SSOPs is to simplify, streamline and clarify UNICEF procedures to enable a more effective response.

The audit team interviewed a sample of staff from the programme and operations sections and noted that, in most cases, they were not familiar with the SSOPs and had not been trained on their use. The office did not therefore fully benefit from the simplification of procedures offered by the SSOPs. As an example, the review of a sample of 11 PCAs showed that the office had used the regular process instead of the simplified process intended to reduce undue delays (see observation *Partnerships*, page 9 above).

The office had not yet organized any training or briefing of staff on the SSOPs. The regional office said that it had conducted a survey in May 2015 to assess staff understanding of the SSOPs but did not specifically assist the office with their implementation. The office said that it was reviewing its SOPs with a view to integrating the SSOPs at the time of the audit.

Agreed action 14 (medium priority): The office agrees to provide staff with orientation on the Simplified Standard Operating Procedures and ensure that these are integrated into the office's standard operating procedures.

Responsible staff member: Chief of Operations

Date by which action will be taken: September 2017

Oversight of financial management

The office performed monthly bank reconciliations, with proper segregation of duties and within deadlines. Reconciling items were monitored and cleared promptly. It established and used a checklist for the payment of direct cash transfers, and payments were supported by itemized cost estimates and relevant agreements or workplans. However, the audit noted the following.

Cash forecast: Local bank accounts should be maintained at a level sufficient to cover only day-to-day transactions, usually not exceeding the equivalent of one to two weeks' normal requirements. This allows UNICEF to hold as much as possible of its funding globally in such a way as to provide maximum interest.

Initially, the office had an end-of-month cash balance in the bank of US\$ 300,000. As the Level 3 emergency significantly increased the daily expenditure of the office, in April 2016 it obtained the approval of the Division of Financial and Administrative Management (DFAM) to increase the end-of-month balance to a maximum of US\$ 2 million. However, the office regularly exceeded this benchmark. During the first nine months, the end-of-month balance was higher than the set benchmark for six months, and in one particular month, the balance was US\$ 8 million – that is, four times the authorized limit.

The audit noted that the treasury forecast obtained from the programme sections was done quarterly. Given the volatile situation in the country, this was too long an interval to allow for

¹⁶ CF/EXD/2011-001 of 21 March 2011.

an accurate forecast. In addition, the programme forecast included amounts to be paid in US\$ by the New York cashier. Because these are not paid by the office, they should not be included in the forecast of its cash needs; doing so unnecessarily increased the bank replenishment amounts.

Fraud risk assessment: Key staff with procurement and contracting responsibilities had not been trained on how to identify and assess indicators of vulnerabilities to, or red flags for, procurement and contract fraud and corruption. The office said that this was not done because DFAM had not yet issued guidance on how to carry out a fraud risk assessment and develop a fraud response plan. OIAI's recent audit of the Afghanistan Country Office (2016/13) contains an agreed action by DFAM to address this issue, and so it is not repeated in the current report.

The audit also noted that, as of end of September 2016, only 32 out of the 181 staff members currently in place had completed the mandatory Ethics training, even though the office said it aimed at having all staff members complete it.

Agreed action 15 (medium priority): The office agrees to:

- i. Seek cash forecasts from programme sections for a shorter period than a quarter, given the rapidly-changing country context.
- ii. Ensure that payments to be made in US dollars by the New York cashier are excluded from bank replenishments.
- iii. Make sure that staff members complete the mandatory Ethics course.

Responsible staff members: Finance Specialist and Human Resources Manager

Date by which action will be taken: i and ii, the office reports the actions as having been completed; iii, July 2017

Warehouse management

According to VISION, as of 13 September 2016 there were US\$ 7.9 million of supplies stored in the warehouses maintained by the office (in Djibouti, and at three locations in Yemen – Sana'a, Aden and Hodeidah). There were no items stored for a period over one year.

The office said that the information recorded in VISION was not fully accurate. However, as the office did not maintain a record of discrepancies, the audit team could not determine the significance of the errors. For instance, 1,470 cartons of Ready-to-Use Therapeutic Food (RUTF) and 250 resuscitators were recorded as received in the country office's books, but there was no evidence that they had actually been received. The office did not formally investigate the causes of such discrepancies and this issue had not yet been addressed at the time of the audit (the missing RUTF was later found to be still in Djibouti). The office said that the delays in recording the receipt and/or delivery of supplies and the manual release orders in VISION were due to insufficient staff resources.

The supplies stored in the UNICEF warehouses included items that were temperature sensitive, such as Plumpy'nut (an RUTF) and medicines that required a storage temperature of not more than 30° C. The temperature can reach 55° C in Djibouti and 40° C in Hodeidah. The audit team did not visit the warehouses located in Djibouti and Hodeidah and therefore could not review whether temperature-sensitive supplies were well-managed. However, the

audit noted that the office had no procedures in place at these locations to monitor temperature-sensitive supplies. Not only had this increased the risks of potential damage to stored supplies, but in addition the port authorities in Djibouti had questioned the quality of the goods imported and required an official letter from UNICEF certifying that harmful supplies had not been shipped to Yemen. At the time of the audit, the office had not taken any measures to address this issue.

The audit team visited the warehouse in Sana'a, which was owned and managed by a company contracted by the office. It found that the warehouse space was sufficient and that programme supplies were well stored. However, the office had not formally given the warehouse management a list of staff authorized to sign the release orders, with specimens of their signature. The office said there was an agreement with the warehouse management that only the release orders emanating from the logistics staff were acceptable, but this was not recorded.

The audit reviewed a sample of release orders that were submitted recently to the warehouse and found that these were not always generated from VISION, and that those that were, were not signed. This increased the risk of unauthorized release orders being submitted and accepted, and thus of theft of stocks.

The audit found a stock of supplies (including 200 cartons of Plumpy'nut) that were stored in the Sana'a warehouse but not recorded in UNICEF's inventory. According to the office, these supplies had been delivered to the designated governmental partner but were then returned to UNICEF pending availability of transportation to their final destination. However, having been returned for the time being, these supplies had come back under the control of UNICEF and should have been recorded as such in the inventory.

Agreed action 16 (medium priority): The office agrees to:

- i. Investigate the causes of the discrepancies noted in the quantity of supplies received from Djibouti and take corrective action.
- ii. Ensure that any suspected losses to fraud, theft or other abuse are promptly notified to the Office of Internal Audit and Investigations in accordance with UNICEF rules.
- iii. Allocate the resources needed to the supply unit to ensure timely recording of the receipt, storage and release of the supplies.
- iv. Establish procedures to improve control over temperature-sensitive programme supplies.
- v. Formally communicate to the warehouse managers the list of staff authorized to sign release orders/waybills.
- vi. Ensure that the delivery of supplies from the warehouses is based on signed release orders issued from VISION.
- vii. Ensure that all supplies stored under the office's control are properly recorded in the office's inventory.

Responsible staff members: Logistics Specialist and Human Resources Manager.

Date by which action will be taken: i, ii, iii, iv and vii, September 2017; v and vi, the office reports the actions as having been completed

Assets

As of 6 October 2016, the office had 1,293 asset items amounting to US\$ 1.3 million.

The audit noted several discrepancies in asset management. For instance, 412 items did not have an inventory numbers, 85 items did not have their location listed in the inventory, and 409 items did not have an acquisition value in VISION. There was no established procedure for monitoring the completeness of data. The office said it relied on data received from headquarters without checking it against information contained in VISION.

The office held three Property Survey Board (PSB) meetings between January and September 2016. The audit found that the submissions to the PSB did not include all the information necessary for decision-making, such as the nature of the request (e.g. disposal of the asset) and the justification. Lack of such information significantly constrained the PSB in its review of the causes of damage and impairment to inventory items and its suggestion of mitigating measures. Furthermore, the last physical count, conducted in September 2016, had marked 21 items to be submitted to the PSB but did not indicate the reasons for this.

Agreed action 17 (medium priority): The office agrees to:

- i. Ensure that the data recorded in the asset module of VISION is complete and accurate.
- ii. Ensure that recommendations on assets following the physical count are specific and actionable, and are submitted to the Property Survey Board (PSB) accompanied by adequate justification.
- iii. Ensure that the PSB is provided with adequate information for decision-making, analyses the causes of loss of or damage to assets, and makes recommendations accordingly.

Responsible staff member: Administration Specialist

Date by which action will be taken: July 2017

Business continuity plan

An office's business continuity plan (BCP) is an important risk-management measure, in that it ensures that the office can resume safely its key functions on a timely basis after a major incident or disaster. The office had updated its BCP on 11 April 2016 and conducted two BCP drills, one to check if all registered phone numbers on the telephone tree were correct and working, and the other one on internet connectivity and remote access to VISION and Outlook.

However, the results of these simulation exercises were not used to identify lessons learned and strengthen the BCP. Further, the zone offices, located in areas with security risks ranging from high to very high, did not have their own BCPs. The country office said it was exploring the option of a simplified version of BCP that can be prepared for the zone offices.

Agreed action 18 (medium priority): The office agrees to complete the Business Continuity Plan (BCP) document by including the mitigation measures for the zone offices, and to use the results of the simulation exercises of the BCP to improve the plan.

Responsible staff members: Chief of Operations and Chief of Field Operations

Date by which action will be taken: November 2017

Programme criticality assessment

A programme criticality assessment is a process of examining different activities and weighing their importance for the beneficiaries against the risks involved in their implementation. Such an assessment is crucial in a security situation where continued implementation of an activity might put staff in harm's way, making it essential to know whether there is adequate justification for doing so.

The members of the UN Country Team in Yemen had jointly completed a programme criticality assessment with assistance from the UNICEF regional office in June 2016. As a result of this exercise, each output identified by the respective UN agencies, funds and programmes was rated according to its contribution to the UN strategic priorities and to its likelihood of implementation. This rating, combined with the overall security risk in a specific region, determined the activities that staff could carry out within acceptable risks.

However, when the audit team interviewed a sample of programme staff, it noted a need to improve their understanding of the programme criticality concept, the link with the security risk assessment and the implications regarding the type of activities that staff would be allowed to pursue, particularly in high security risk areas.

Agreed action 19 (medium priority): The office agrees to ensure that staff have adequate knowledge of programme criticality and its use to determine acceptable security risks.

Responsible staff member: Chief of Field Operations

Date by which action will be taken: August 2017

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal auditing practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

- High:** Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.
- Medium:** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.
- Low:** Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented in the Summary fall into one of four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the office were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the office were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed **significant** improvement to be adequately established and functioning.