

Report on the Internal Audit of the  
**YEMEN COUNTRY OFFICE**

**AUGUST 2023**

Report 2023/14

# CONTENTS

<b>Executive Summary .....</b>	<b>3</b>
Overall Conclusion	
Summary of Observations and Agreed Actions	
<b>Context.....</b>	<b>6</b>
<b>Audit Objectives, Scope and Approach .....</b>	<b>8</b>
<b>Observations and Management Action Plan .....</b>	<b>10</b>
1. Fraud Risk Management	
2. Harmonized Approach to Cash Transfers	
3. Local Procurement of Services	
4. Distribution of Supplies	
5. Construction Management	
6. Accountability to Affected Populations	
7. Prevention of Sexual Exploitation and Abuse	
8. Unconditional Social Cash Transfers	
<b>Appendix.....</b>	<b>22</b>
Definitions of Audit Observation Ratings	
Definitions of Overall Audit Conclusions	

# EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the Yemen Country Office (YCO), covering the period from January 2021 to December 2022. The audit itself was performed from 1 to 16 March 2023 in conformance with the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. The overarching objective of the audit was to assess the adequacy and effectiveness of the governance, risk management, and control processes across a selection of significant risk areas of the country office, including fraud risk management; unconditional cash transfers; Harmonized Approach to Cash Transfers (HACT) assurance; service contracts; supply distribution; construction management; accountability to affected populations (AAP); and the prevention of sexual exploitation and abuse (PSEA). The descriptions of the specific risks evaluated are provided in the Audit Objective, Scope and Approach section of this report.

In 2021 and 2022, a total of US\$289.9 million was paid using various modalities to implement UNICEF interventions: direct cash transfers (advanced payments) to implementing partners (28 per cent), direct payment to vendors of implementing partners (57 per cent), and reimbursement of implementing partners for eligible expenses (14 per cent). Additionally, the country office made approximately US\$234 million worth of unconditional social cash transfers. Overall, the cash payments to implementing partners and the social cash transfers accounted for approximately 47 per cent of YCO expenditure during the audit period.

During the entire period covered by the audit, the YCO was responding to an L3 emergency - the highest level of the United Nation's humanitarian emergencies classification. The declaration of an L3 emergency enabled UNICEF to increase its resources and logistical support to the YCO and facilitated the YCO's employment of a number of simplified administrative procedures, such as streamlined processes for the recruitment of personnel, establishment of implementing partnerships, and procurement of supplies and services. It also allowed for consolidated assurance activities in respect of the execution of UNICEF interventions and partners' use of resources provided to them.

## Overall Conclusion

Based on the audit performed, OIAI concluded that the assessed governance, risk management or control processes were Partially Satisfactory, meaning they were generally adequate and functioning, but needed improvement. The weaknesses or deficiencies identified were unlikely to have a materially negative impact on the performance of the audited entity, area, activity, or process.

	Satisfactory
	Partially Satisfactory, Improvement Needed
	Partially Satisfactory, Major Improvement Needed
	Unsatisfactory

## Summary of Observations and Agreed Actions

OIAI noted several areas where UNICEF Yemen's controls were adequate and functioned well and also made a number of [observations](#) related to the management of the key risks evaluated. In particular, OIAI noted:

- **Fraud risk management:** The YCO developed an appropriate context-specific anti-fraud strategy and action plan outlining its approach to fraud risk management. Additionally, the country office achieved a high completion rate for mandatory training of staff and the audit noted a high level of awareness and understanding of policies related to proscribed/fraudulent

practices amongst staff. The YCO established a Risk Management Committee to strengthen overall risk management processes throughout the period under review. However, there was no specific information related to fraud-risk shared during training of vendors, potentially increasing the likelihood of fraud-related incidents.

- **HACT:** While appreciating the country office's efforts towards improved controls in this high fraud-risk environment, OIAI noted the need for the YCO to review its application of the HACT with the goal of streamlining and focusing it on the most efficient and effective measures to achieve appropriate risk tolerances. For example, OIAI struggled to see the value of YCO undertaking micro-assessments of its implementing partners after assuming that those partners are high risk. Under the HACT framework, micro-assessment is required to determine the risk rating of partners. In certain situations, like the operating environment of the YCO, the HACT framework allows country offices to assume that partners are high risk without undertaking formal assessments of those partners. OIAI also noted that whilst the assurance planning process generally conformed to the risk-based planning process set out in UNICEF HACT guidance, the quality assurance spot checks and expenditure and internal control audits of implementing partners needed improvement to ensure that ineligible expenses are accurately identified and reported by the audit firms and promptly recovered by UNICEF.
- **Construction management:** There was no comprehensive monitoring plan for construction sites. For example, the country office had a list of 149 projects with the required minimum number of monitoring visits that facilitators and third-party monitors were expected to make to each project. However, there was no similar plan for the supervision of projects by engineering firms who received approximately 72 per cent of the total cost (US\$44 million) of construction works and services and in-house construction specialists. Additionally, there was insufficient evidence of centralized oversight of the monitoring plan. In this regard, the YCO was unable to provide a comprehensive and consolidated document, such as an updated report or dashboard, with the implementation status of the monitoring plan. Thus, there was an enhanced risk that construction monitoring was either inefficient or insufficient to promptly identify and address issues that may impede efficient construction activities and ensure money was used for the intended purposes.
- **Accountability to affected populations:** The YCO had taken notable steps to increase consideration of AAP in its programme planning. For example, the new 2023-2024 Country Programme Document requires capturing of feedback from targeted populations and mainstreaming of AAP YCO programmes. However, Government implementing partners who received more than 75 percent of the funding for UNICEF programmes were not required to implement AAP activities primarily because UNICEF had not mandated mainstreaming of AAP in programmes implemented by these partners. The YCO also did not consistently require its civil society implementing partners to implement AAP activities and did not have evidence to show that the views from affected communities were sought and considered in the subsequent selection of YCO interventions to respond to concerns that were raised.

**Prevention of sexual exploitation and abuse:** The country office had an effective process in place that ensured all civil society implementing partners had PSEA measures in place – the YCO had developed a suite of measures, which a partner either adopted or tailored to their specific circumstances. However, contrary to UNICEF requirements, the implementation and effectiveness of these measures had not been subsequently assessed. Additionally, Government partners were not aware of UNICEF's zero tolerance for SEA and relevant reporting and investigation requirements. Whilst Government implementing partners received more than 75 percent of the funding for UNICEF programmes, they were not required to develop and implement

PSEA measures primarily because UNICEF had not mandated this requirement. Additionally, the planned training and sensitization activities for Government partners as well as high-risk vendors such as construction companies had not been fully implemented.

The table below summarizes the key actions agreed upon by country office management to address the residual risks identified and the ratings of those risks and observations with respect to the assessed governance, risk management and control processes. (See the [definitions of the observation ratings](#) in the Appendix.)

OBSERVATION RATING		
Category of Process	Area or Operation and Key Agreed Action	Rating
Risk management	<b>Fraud Risk Management (Observation 1):</b> Strengthen anti-fraud awareness measures related to high volume vendors, civil society implementing partners staff and beneficiaries, especially in service-delivery settings and constructions.	Medium
	<b>HACT (Observation 2):</b> Review the application of HACT with the goal of streamlining and focusing it on the most efficient and effective measures to achieve appropriate risk tolerances. For example, if the YCO office choses to assume a partner as high risk, it should assess the cost-benefit of undertaking micro-assessments and Enhanced Risk Assessment of the partner.	Medium
Controls processes	<b>Construction Management (Observation 5):</b> Develop a detailed construction monitoring plan that contains, amongst others, the start and end date of each project, timetable or frequency for monitoring and supervision visits to each project, responsible individual for circulation to the Country Management Team; develop and update a monthly construction status report/spreadsheet showing implementation status of each project in the monitoring plan as well as the performance against milestone dates (e.g., start date and dates), budget/actual cost variances.	Medium
	<b>Local procurement of services (Observation 3):</b> Ensure that monitoring activities and performance evaluations for service providers are conducted in a timely manner and consistently documented in corporate systems.	Medium
	<b>Distribution of supplies (Observation 4):</b> Adjust the templates provided to Third Party Monitors (TPMs) and specifically require sufficient information such as the type, volume or value of supplies distributed and to whom; and require TPMs to speak to beneficiaries and accurately report the outcome of such interactions in respect of whether the beneficiaries have received the supplies in the right quantity and quality and whether they found them useful.	High
	<b>Accountability to Affected Populations (Observation 6):</b> Develop and implement evidenced-based, context-specific processes for consultation and participation of affected populations including mechanisms for collating the views of affected population in respect of interventions and responses that would impact their lives as well as documenting those views and how they are reflected in organizational decisions as well as for analysing and acting on the feedback, grievances and complaints of beneficiaries of	Medium

	interventions and responses to ensure adequate responses to concerns that were raised.	
	<p><b>Prevention of sexual exploitation and abuse (Observation 7):</b> Adapt the PSEA strategy and action plan to the local context and operating environment; develop appropriate tools and templates that would require TPMs and facilitators to verify and report partners implementation of appropriate PSEA measures; develop context-specific awareness raising materials and put in place measures to train key counterparts, beneficiaries, and vendors on SEA prevention, detection and follow-up; and incorporate context specific PSEA monitoring tools into monitoring and assurance activities.</p>	High

Management is responsible for establishing and maintaining appropriate governance, risk management and control processes and implementing the actions agreed following this audit. The role of the OIAI is to provide an independent assessment of those governance, risk management and control processes.



# CONTEXT

Yemen's population of approximately 31.8 million (51 per cent male, 49 per cent female) is predominantly young with 63 per cent aged under 24 years and 38 per cent under 15 years. Around 63 per cent live in rural areas and the overall population is projected to double by 2035.



Yemen is experiencing one of the world's worst humanitarian crises, with an estimated 23.4 million people (68 per cent of the population), including 12.9 million children and 5.2 million women, in need of humanitarian assistance. The crisis has affected both the delivery of and access to essential services and over four million people, including two million children, are internally displaced. Many are in a situation of protracted and multiple displacements, putting a strain on their resources and exacerbating vulnerabilities. The influx of large numbers of

internally displaced persons puts an additional burden on the resources of host communities – many of which are conflict-affected with significant humanitarian needs themselves. The coronavirus disease (COVID-19) outbreak, flooding, locust infestation, overlapping infectious disease outbreaks such as cholera and dengue fever, and climate-related hazards have further compounded the already difficult humanitarian situation.

## Context of key risk areas covered in the audit

The UNICEF Country Programme 2012-2015, which was prepared before the ongoing crisis, was structured around four key components, namely (i) equitable access to basic social services, (ii) evidence for children's rights, (iii) empowerment for children's rights, and (iv) cross-sectoral approaches.

In 2021 and 2022, a total of US\$289.9 million was paid using various modalities to implement UNICEF interventions: direct cash transfers (advanced payments) to implementing partners (implementing partners) (28 per cent), direct payment to vendors of implementing partners (57 per cent), and reimbursement of implementing partners for eligible expenses (14 per cent). Additionally, the country office made approximately US\$234 million worth of unconditional social cash transfers. Overall, the cash payments to implementing partners and the social cash transfers accounted for approximately 47 per cent of YCO expenditure during the audit period.

During the entire period covered by the audit, the YCO was responding to an L3 emergency - the highest level of the United Nation's humanitarian emergencies classification. The declaration of an L3 emergency enabled UNICEF to increase its resources and logistical support to the YCO and facilitated the YCO's employment of a number of simplified administrative procedures, such as streamlined processes for the recruitment of personnel, establishment of partnerships with Civil Society Organizations, and procurement of supplies and services. It also allowed for

consolidated assurance activities in respect of the execution of UNICEF interventions and partners' use of resources provided to them.



# AUDIT OBJECTIVES, SCOPE AND APPROACH

The overarching objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over a selection of significant risk areas. The scope of the audit included key areas set out in the following table that were selected during the audit planning process based on an assessment of inherent risks.<sup>1</sup> The table below briefly describes inherent risks in relation to the specific risk areas covered in the audit.

RISK AREA	KEY INHERENT RISKS EVALUATED DURING THE AUDIT
<b>Fraud risk management</b>	The YCO may not effectively identify and assess the risks to its programmes nor take effective measures to mitigate these risks.
<b>Harmonized Approach to Cash Transfers</b>	Spot checks and programmatic visits may not be properly planned and executed, resulting in failure to discover and remediate improper use of cash transferred and failure to identify issues that might prevent implementation of activities as planned and achievement of set objectives.
<b>Construction management</b>	Construction projects may not be in alignment with programmatic needs; procured construction services may not be the right quality; construction projects may not be completed in accordance with set quality standards; management, monitoring, supervision of construction projects may be inefficient and ineffective.
<b>Distribution of supplies</b>	Distribution of supplies may not be timely, and supplies may be diverted from targeted beneficiaries.
<b>Accountability to affected populations</b>	Control processes may not be adequate or effective to ensure achievement of UNICEF strategic goal: affected children and families participate in the decisions that affect their lives, are properly informed and consulted, and have their views acted upon. Specifically, AAP activities may not be integrated into workplans, and programme documents signed with implementing partners and feedback of beneficiaries may not be obtained and used to further inform programming.
<b>Social cash transfers</b>	Control processes may not be adequate and effective to ensure identification of appropriate enrollment/targeting criteria; set criteria may not be effectively used to enroll individuals in the social cash transfer programme; ineligible individuals may receive payments under the programme.
<b>Prevention of Sexual exploitation and abuse</b>	Control processes may not be adequate and effective to manage risk of sexual exploitation and abuse of individuals that UNICEF and its staff work with, as well as beneficiaries of UNICEF programmatic interventions.
<b>Local procurement of services</b>	Locally procured services may not be in alignment with programmatic needs; procured services may not be of the right quality and/or delivered in accordance.

The audit was conducted through remote preparatory interviews with country office management and an on-site visit during 1 to 16 March 2023, in accordance with the International Standards for the Professional Practice of Internal Auditing. For audit testing, the audit covered the period of January 2021 to December 2022 and involved a combination of methods, tools, and techniques, including interviews, data analytics, document review, tests of transactions, evaluations, and validation of preliminary observations.

<sup>1</sup> Inherent risk refers to the potential adverse event that could occur if management takes no action, including internal control activities. The higher the likelihood of the event occurring and the more serious the impact would be should the adverse event occur, the stronger the need for adequate and effective risk management and control processes.

# OBSERVATIONS AND MANAGEMENT ACTION PLAN

Key action areas are summarized below.

## 1. Fraud Risk Management

Medium

*The country office developed a comprehensive anti-fraud strategy to address and mitigate fraud and fraud-related risks. However, there were gaps in raising awareness on fraud-related issues, as well UNICEF Yemen's reporting requirements among external stakeholders, including beneficiaries or vendors, of steps needed to respond to potential fraud.*

The fraud risk assessment conducted by management was satisfactory and sufficiently complete to ensure that significant fraud risks were identified, and appropriate mitigation measures designed. In 2022, the country office developed a context-specific anti-fraud strategy based on UNICEF's global anti-fraud strategy and incorporated good practice elements outlined in the UN's 2016 Joint Inspection Unit report on fraud. The strategy defined 43 different fraud-related risk areas, risk owners for each area and the controls requiring regular assessment. Additionally, the strategy outlined a detailed action plan for the risk areas and anti-fraud components, together with the accountable staff member and applicable indicators. Most of the actions identified were under continuous implementation during the audit fieldwork, although with some gaps as described further below.

Based on its anti-fraud strategy, the country office put in place internal activities to prevent, deter, and detect fraud and to report identified issues in line with UNICEF's policy. Apart from having a high completion rate of mandatory fraud-related training, the YCO conducted two specific internal staff training sessions on fraud-related issues during the period under review. Audit interviews with staff members confirmed a strong management focus and tone regarding issues such as ethics, integrity, and fraud awareness with regular reminders during staff meetings. Interviews with senior management confirmed focus on strong and cost-beneficial control design through measures related to segregation of duties, approval hierarchies, reconciliations and documentary reviews, extensive Third-Party Monitoring (TPM) monitoring, and others. All suspected fraud cases were documented and reported to OIAI in accordance with the applicable policy.

As per the objectives in each area under the scope of the audit, control processes and activities were assessed. Identified gaps were further raised in the present report and improvement actions recommended. Notwithstanding those, the audit considers that the following areas could further contribute to improved prevention and response to fraud, thus promoting a culture of integrity, and better safeguarding the country office's resources and reputation:

### **External facing anti-fraud measures:**

*Implementing partners:* The YCO provided trainings to its implementing partners on administrative areas, including information on fraud and fraud risks. While an understanding of fraud and fraud-related risks was noted in most interviews with key counterparts (such as staff at implementing partners and at service delivery points), the audit noted mixed understanding and awareness of fraud reporting obligations and processes to follow when suspicions arose related to UNICEF funds. Staff at four of the ten key partners visited, and staff at two of the four project sites visited had limited understanding of investigation, reporting and resolution requirements related to any suspicions of fraud impacting UNICEF funding. Fraud-related training and awareness raising to implementing partners staff plays a vital role in ensuring that partners are mitigating fraud risks, identifying fraud when it occurs and taking the necessary steps to investigate and resolve fraudulent activities.

- **Vendors and beneficiaries:** Information on general reporting channels was available at the visited service delivery sites (the audit accessed four different sites), primarily in the form of posters with telephone numbers in health and unconditional cash transfer facilities. The telephone numbers to the respective hotlines were part of the Complaints and Feedback Mechanism and as such were able to receive allegations of fraud. The provision of information to beneficiaries on complaint reporting channels (including suspicions of fraud) had proven effective. For example, in the UCT project where each payment site includes information on how to raise a complaint or grievance, and the office focuses on raising awareness among all beneficiaries, the office registered over 12.000 reports on suspected fraud between 2021 and 2022. However, based on the audit interviews conducted with YCO staff, these types of information/reporting channels were not yet available in other programmes such as education or water, sanitation, and hygiene (WASH), nor were they present in construction projects. The audit's visit to two school rehabilitation projects confirmed that no specific awareness raising measures (training or information materials) were conducted during the period under review. Beneficiaries (e.g., teachers) and contractors (construction workers and engineering staff) confirmed that no specific training or fraud-awareness raising measures were extended to them.

## RECOMMENDED ACTION

The Yemen Country Office agrees to strengthen fraud awareness raising measures related to vendors and beneficiaries, especially in service-delivery settings and high-risk projects such as construction.

**Staff Responsible:** Operations Manager

**Implementation Date:** 31 March 2024

## 2. Harmonized Approach to Cash Transfers

Medium

*While the country office strengthened its overall HACT assurance process, there were gaps in the execution of the minimum required assurance activities, with the potential to expose the YCO to the risk of mismanagement of funds by implementing partners. The overall information disclosed, and level of detail provided in the sampled audit reports did not provide the required level of assurance on the utilization of funds.*

**HACT Plus (HACT+):** In 2021 and 2022, a total of US\$289.9 million was paid through various modalities to implement UNICEF interventions: direct cash transfers (advanced payments) to implementing partners (28 per cent), direct payment to vendors of the implementing partners (57 per cent), and reimbursement of the implementing partners for eligible expenses incurred (14 per cent). OIAI noted the unusual nature of this trend given that the direct cash transfer modality is commonly used in most UNICEF country offices. In 2020, due to significant risks to the intended use of funds (context and environment) and the need for the YCO to deliver life-saving services, UNICEF Yemen put in place what is known as HACT+, which requires the utilization of direct payments and reimbursement modalities for all implementing partners involved in non-humanitarian situations, utilization of direct cash transfers solely in humanitarian situations, requiring detailed listing of expenses claimed.

HACT+ also consisted of the following four elements: (i) assuming all implementing partners are high risk thereby increasing the number of financial assurance activities; (ii) execution of an Enhanced Risk Assessment (ERA) of all implementing partners; (iii) utilization of an enhanced micro-assessment; (iv) strengthened financial assurance activities by focusing spot checks on fraud detection and prevention; reducing thresholds for spot-checks; increasing the number of financial assurance providers under long-term agreement; removing construction projects and procurement of supplies from implementing partners.

While appreciating the country office's efforts towards improved controls in this high-risk environment, OIAI noted the need for the YCO to review HACT+ with the goal of streamlining and focusing it on the most efficient and effective measures to address the most significant risks associated with doing business with these potential partners. For example, OIAI struggled to see the value of YCO undertaking ERAs and micro-assessments of implementing partners after assuming that those partners are high risk. Under the HACT framework, micro-assessment, or ERA (in the case of the YCO) is required to determine the risk rating of partners. In certain situations, like the operating environment of the YCO, the HACT framework allows country offices to assume that partners are high risk without undertaking formal assessments of the partners.

**Execution of the HACT assurance plan:** The country office had prepared a direct cash transfer assurance plan comprising of spot checks, programmatic visits, and audits, that was periodically updated. The plan appropriately included assurance activities in respect of partners that had been assessed as high risk as well as those partners that had been provided significant amounts of cash to implement UNICEF interventions. Whilst the planning process generally conformed to the risk-based planning process set out in UNICEF HACT guidance, in OIAI's view, the plan could have been streamlined and focused only on direct cash transfers, this being the riskiest payment modality under the HACT framework since it involves disbursement of funds to partners prior to the implementation of UNICEF intervention. OIAI noted that the assurance plan also included spot checks in respect of direct payments and reimbursements. This suggests that the country office may have paid the vendors of implementing partners and reimbursed the partners without first making sure there were acceptable evidence that expenses had indeed been incurred for authorized UNICEF interventions.

The audit noted that not all assurance activities in the plan were completed - 26 of the 161 planned spots checks, 50 of the 126 scheduled audits, and 227 of the 855 planned programmatic monitoring visits were not conducted. Due to security and access restrictions, the country office relied on third parties to conduct its HACT assurance activities during the period under review. Notwithstanding, the YCO attributed the partial execution of planned activities to security and access restrictions. In OIAI's view, this suggests that the YCO did not have partners to conduct assurance activities in all locations where they were needed. Failure to complete the planned HACT assurance activities creates an elevated risk to prompt detection and remediation of potential fraud, waste, and abuse as well as the significant matters that may negatively implement completion of interventions in accordance with set quality standards.

**Quality of spot check reports:** The country office conducted spot checks of implementing partners' financial records to obtain reasonable assurance that amounts reported by implementing partners in the FACE form were accurate. As required by HACT guidance issued by the Division of Data, Analytics, Planning and Monitoring, the spot-checkers typically examined the records of a sample of financial transactions. OIAI's review of a sample of 20 spots check reports noted the following gaps in expense categories and transactions in 12 reports:

- i. Ineligible expenses were not stated

- ii. Tested sample were neither quantified nor categorized
- iii. The percentage of expenses tested was not indicated
- iv. There was no evidence and support documentation on the audit observation

Additionally, in 14 of the sample reports, the testing coverage of the spot checks was not indicated despite this requirement in engagement letters. The observations related to lack of documentation in these reports did not include the amount of expenditure involved; therefore, implementing partners were not required to either substantiate the expenditures or reimburse UNICEF for ineligible expenses. This creates a heightened risk of funds not being used for the intended purposes.

In June 2022, the YCO attempted to improve the quality of reporting and usefulness of spot checks during the renewal of applicable long-term agreements with respective vendors. One of the improvements was a requirement for a spot checker to express an overall opinion on the expenditure examined. However, OIAI's review of five draft reports issued since June 2022 in the new format noted that the service provider's vendor did not express an overall opinion on the expenditure despite this requirement in their terms of reference to provide reasonable assurance that expenses claimed by implementation partners are accurate.

**Quality of audit reports:** A scheduled audit is used to determine whether the funds transferred to implementing partners were used for the intended purpose and in accordance with the workplans and programme documents signed by the partners. The type of audit (financial or internal control) to be performed and audit frequency of such audit is determined when the assurance plans are being developed and based on the implementing partner's risk rating.

OIAI's review of a sample of 13 financial and internal control audit reports noted that the financial findings were neither quantified nor categorized by expenses type. Only one of the reviewed reports indicated sample and amount of expenses. Ten of the 13 reports had an unqualified opinion - a satisfactory opinion on the partners' expenditures and internal controls. However, the audit reports had inadequate supporting evidence as they did not disclose the kind of testing and analyses performed, sampling methods, sample sizes, and information on the population of transactions involved and the period covered. In OIAI's opinion, the level of detail provided in the sampled audit reports did not provide an appropriate level of assurance on the nature and extent of audit work performed.

## RECOMMENDED ACTIONS

The Yemen Country Office agrees to:

- i. Review HACT+ with the goal of streamlining and focusing it on the most efficient and effective measures needed to mitigate the most significant risks. For example, if the Yemen Country Office chooses to assume a partner as high risk, it should assess the cost-benefit of undertaking micro-assessments and ERA of the partner.
- ii. Review and adjust its assurance planning process to ensure that assurance plan focuses only on direct cash transfers. In tandem, the country office should pay the vendors of implementing partners and reimburse after making sure there is sufficient and acceptable evidence that expenses had indeed been incurred for authorized UNICEF interventions.
- iii. Minimize delays in the completion of HACT assurance activities by continuously identifying and addressing key bottlenecks.

- iv. Strengthen spot checks and audits by mandating inclusion of ineligible expenses, the value of and percentage of expenses tested, categorization of expense in spot check and audit reports and by requiring maintenance of adequate evidence related to observations in the report. Reports should also state if no ineligible expenses were identified.

**Staff Responsible:** DRO & Operations Manager / HACT team

**Implementation Date:** i. & ii Ongoing; iii. & iv. 31 December 2023

### 3. Local procurement of services (service contracts)

Medium

*There were gaps in monitoring activities and final performance evaluations of contractors, elevating risk to quality of services.*

The country office issued 1,478 service contracts worth US\$430 million during the period under review. OIAI reviewed the procurement process followed for 35 service contracts amounting to approximately US\$16 million. Audit of these service contracts included both locally procured services as well as those based on long-term agreements. OIAI noted that competitive procurement processes were followed to ensure transparency and value for money. Additionally, the Contracts Review Committee scrutinized all contracts over the set policy threshold as required and its recommendations were accepted and implemented by management in all reviewed cases. The audit also observed that most of the deliverables were submitted on time.

Based on the audit conducted, the OIAI noted the following areas which require the attention of country office management:

**Performance monitoring and evaluations:** Performance monitoring and evaluation of service providers was inconsistent. There was no evidence of monitoring activities being conducted by requisitioning departments during periods of service provision for three of the sampled contracts. Moreover, two final performance evaluations for service providers were either not conducted or were done well after the contract expiry date. The country office did not provide an explanation for why monitoring activities were not conducted nor why performance evaluations were delayed or incomplete.

### RECOMMENDED ACTIONS

The Yemen Country Office agrees to ensure that monitoring activities are consistently conducted for all service contracts, and that performance evaluations for service providers are conducted in a timely manner and attached to the contract in the respective corporate system.

**Staff Responsible:** Senior Supply & Logistics Manager

**Implementation Date:** 30 November 2023



## 4. Distribution of programme supply

High

During the period under review, the country office was working under an L3 emergency. A total of US\$46.5 million worth of supplies was procured locally, the most valuable purchases being WASH kits and other WASH-related supplies; protective equipment; printed materials; health equipment; and diesel generators. As of January 2023, the YCO had five warehouses holding supplies worth US\$19.3 million, of which 13 per cent were prepositioned supplies. Prepositioned supplies refer to strategically positioned stockpiles of essential items or resources in advance, typically in locations prone to disasters or areas with limited access to resources. These supplies are stored in warehouses to enable rapid response and delivery during emergencies or crises, for the provision of immediate assistance to affected populations. The total value of distributed supplies for the period under review was US\$195.6 million.

The OIAI found insufficient evidence that implementing partners were distributing supplies to intended beneficiaries at the right time, in the right quantities and of adequate quality. The country office relied on TPMs to obtain reasonable assurance that supplies were timely and accurately recorded when received and distributed by partners to the intended beneficiaries in accordance with established distribution plans. While the YCO expected TPMs to obtain the required assurance during their programmatic monitoring visits, there was no previously established systematic and substantial plan in place for the distribution of the supplies it had entrusted to its partners. Additionally, the OIAI found that the TPM reports to monitor and confirm the partners' distribution of supplies were insufficient for the kind of assurance required by UNICEF for these monitoring activities. For example, none of the ten sampled TPM reports that were related to interventions with a supply component included adequate information on the intended distribution of supplies. Apart from a general statement on availability of supplies at the partners' locations visited by the TPMs, there was no information in the reports on the type, volume or value of supplies distributed and to whom. There was also no information on whether the TPM had spoken to beneficiaries to confirm whether they had received the supplies as well as the quantity, quality, or usability of supplies.

This occurred because the template used by the TPM for monitoring and reporting did not specifically require them to provide sufficient information on the distribution of supplies.

### RECOMMENDED ACTION

To enhance its supply end-user monitoring process, the Yemen Country Office agrees to adjust the templates provided to TPMs and specifically require them to obtain sufficient information such as the type, volume or value of supplies distributed and to whom. The country office should also specifically require TPMs to speak to beneficiaries and accurately report the outcome of such interactions in respect of whether the beneficiaries have received the supplies in the right quantity and quality and whether they found them useful.

**Staff Responsible:** Senior Supply & Logistics Manager / Chief PMR

**Implementation Date:** 30 November 2023



## 5. Construction management

Medium

*Gaps were identified in the documentation and follow-up of monitoring observations of construction monitoring activities. Additionally, construction monitoring plans were not regularly updated with information on their execution which may hamper country office management's assurance on the progress of construction projects and may lead to unresolved issues and inadequate mitigation of risks.*

The country office managed a significant construction portfolio during the period under review. Construction was either executed by vendors (engineering and construction companies) hired and supervised by the YCO, or by vendors (engineering and construction companies) hired and supervised by an implementing partner under the HACT framework. Both are typically referred to as direct and indirect implementation, respectively. Directly implemented constructions works and services amounted to US\$44 million (US\$12.4 million worth of construction works and US\$31.6 million worth of engineering services) during the period under review. Most of this work included the construction of new or rehabilitated health, education and WASH facilities and warehouses. Indirectly implemented works related to the rehabilitation of 300 education facilities totaling US\$4.4 million.

**Justification to engage in construction works:** Due to the operating context, there was no comprehensive and up-to-date Country Programme Document, or formally signed workplans with the authorities covering the full period under review. In this context, initiation of construction projects was largely driven by donors and donor funding and based on needs identified by the country office in cooperation with authorities. The selection of projects was always done within UNICEF's priority programmes and areas, primarily in health, education, and WASH, and in coordination with respective authorities. The audit therefore considers that the YCO had sufficient justification to engage in constructions as required by the applicable policy.

There was only one indirect construction activity during the audit period. The business case was established as part of programme document development process under the HACT framework. The country office obtained assurances through spot checks, programmatic visits, and schedule audits.

**Selection of suppliers and implementation modalities:** The audit noted, that overall, the planning and procurement process for locally contracted construction works and services was performed in compliance with the applicable policies, and appropriate implementation modalities (direct and indirect) were selected.

**Governance and management processes for directly implemented construction projects:** The country office had an in-house construction specialist reporting to the Deputy Representative of Operations, with a team of two construction engineers in Sana'a who were overseeing and coordinating the construction project. Staffing was augmented through contracted third parties, who were utilized primarily for supervision and monitoring of construction project. As per the applicable guidance, the country office identified and engaged outsourced engineering services to undertake site assessments, project designs, provide technical support to construction companies, and carry out the day-to-day supervision of construction work. Additionally, due to security and access issues, the country office engaged facilitators to provide regular (mostly weekly) monitoring of each construction site, serving as the country office's eyes on the ground. TPM was engaged to undertake the required programmatic monitoring visits to check on progress of the project. The interviewed contractors, partners, and beneficiary representatives at two

school rehabilitation sites confirmed regular supervision by the contracted engineering firms, as well as monitoring by the YCO, primarily through contracted third parties consisting of facilitators and TPMs.

In OIAI's view, the day-to-day supervision of construction work by engineering firms and monitoring activities undertaken by facilitators and TPMs are potentially duplicative and therefore may be inefficient. Overall, it appeared that the YCO has more capacity and resources than needed for planning, supervision, monitoring of construction and rehabilitation works. As noted above, the country office spent \$31.6 million on engineering services (supervision and monitoring) alone – this was approximately 2.6 times the US\$12 million spent on materials and other direct costs of the construction and rehabilitation works and approximately 72 per cent of the total cost (US\$44 million) of directly implemented construction works and services. In addition to the US\$31.6 million spent on engineering services, the YCO incurred costs related to three full-time in-house construction specialists, and several facilitators and third-party monitors. While UNICEF requires that country offices have adequate capacity and resources for the management of significant construction works portfolios, there was no criteria or guidance for the determination of the capacities and resources needed.

**Execution of monitoring activities:** The country office had a list of 149 projects that included the minimum number of monitoring visits that facilitators and third-party monitors were expected to make to each project. However, there was no similar plan for the supervision of projects by engineering firms who, as indicated above, received approximately 72 per cent of the total cost of construction works undertaken by the country office during the audit period. In OIAI's view, comprehensive and consolidated project planning would help increase the effective and efficient utilization of available resources. Additionally, the YCO was unable to provide a comprehensive and consolidated document to show that all planned visits were conducted. Failure to maintain an updated report or dashboard on the execution of the monitoring plan, increases the risk to the effective performance of planned monitoring activities by facilitators and third-party monitors. This would in turn preclude the country office from timely detection and remediation of significant matters that may negatively impact the completion of construction activities in accordance with relevant quality standards and budgets.

**Documentation and follow-up of construction monitoring process:** Individual reports from monitoring activities were uploaded to eTools, however, the recommendations in these reports were not recorded separately in the action point management function of eTools and there was no evidence whether these recommendations were actioned. When recommendations stemming from monitoring activities are not acted upon, there is an elevated risk to the completion of the project in accordance with set quality standards.

## RECOMMENDED ACTION

The Yemen Country Office agrees to:

- i. Develop a detailed construction monitoring plan that contains, amongst others, the start and end date of each project, timetable or frequency for monitoring and supervision visits to each project, responsible individual (engineering firm, facilitator, in-house construction specialist, or third-party monitor).
- ii. For circulation to the Country Management Team (CMT), develop and update a monthly construction status report/spreadsheet showing implementation status of each project in the monitoring plan as well as the performance against milestone dates (e.g., start date and dates), budget/actual cost variances.

- iii. Ensure that action points and recommendations resulting from construction monitoring activities are adequately managed, followed-up and closed.

**Staff Responsible:** Construction Specialist

**Implementation Date:** 31 December 2023

## 6. Accountability to Affected Populations

Medium

UNICEF subscribes to the Inter-Agency Steering Committee's and Core Humanitarian Standards definition of Accountability to Affected Populations (AAP), which is that AAP is a commitment by humanitarians to use power responsibly to take account of, give account to, and be held to account by the people humanitarians seek to assist. UNICEFs' 2022-2025 AAP strategy articulates the goal as: To ensure that affected children and families participate in the decisions that affect their lives, are properly informed and consulted, and have their views acted upon.

One of UNICEF's four strategic objectives for AAP requires that all country offices integrate AAP into their plans, with appropriate technical and financial support in place to support this effort. In this regard, the OIAI noted that the YCO had taken significant steps to enhance its consideration of AAP in programming. For example, it had established an AAP Committee in late 2021 with the primary objective of strengthening and institutionalizing the AAP principles. The AAP Committee met regularly throughout 2022, formalized its ToR, and developed a basic AAP strategy and 2022 workplan. Thus, UNICEF's Humanitarian Action for Children stated that AAP principles would be integrated into YCO responses and interventions. OIAI noted that the YCO 2023-2024 Country Programme Document requires capturing feedback from targeted populations through focus group discussions and mainstreaming AAP in its programmes.

However, Government implementing partners who received more than 75 percent of the funding for UNICEF programmes were not required to implement AAP activities, primarily because UNICEF had not mandated mainstreaming of AAP in programmes implemented by these partners. Additionally, the country office did not consistently require civil society implementing partners to be accountable to the affected population. A review of a sample of seven out of a total of 51 programme documents (agreements) signed with Civil Society Organizations (CSOs) during the audit period indicated that three did not include any specific AAP activities and five did not include any AAP including the requirements to: involve affected populations in decisions that affect them; implement effective mechanisms that allow affected populations to provide input, suggestions, complaints, and concerns; implement mechanisms that would enable UNICEF to assess its responsiveness - ability to respond promptly and appropriately to the feedback, needs, and concerns of affected populations. This may be because the YCO process for the development of programme documents did not require formal assessment of the need to reflect AAP activities in the documents.

Another of UNICEF's four strategic objectives for AAP requires that all country programmes are informed by the views, participation and feedback from communities and provide timely information to affected communities. Regarding this objective, OIAI noted that the YCO was indeed delivering supplies, distributing cash, paying for various social services, building, and rehabilitating schools and health facilities for the benefit of affected children and families. For some of these responses and interventions such as the unconditional social cash transfer programme, the YCO was also receiving feedback and complaints from beneficiaries. However, there was no concrete evidence that the feedback and complaints were analyzed and used in

programming. There was also no evidence to show that the views of the affected population were sought or taken into considerations in selecting and prioritizing the interventions meant for them. Thus, it was unclear how UNICEF's requirement that all country programmes are informed by the views, participation and feedback from communities was being met. This was mainly because there were no evidenced-based processes for the consultation and the collation of beneficiaries' views, as well as how those views were utilized in the selection and prioritization of interventions. As a result, there remained an elevated risk that UNICEF was not sufficiently focused on what mattered most to the beneficiaries as well as to the impact, economy, and efficiency of UNICEF interventions.

## RECOMMENDED ACTION

The Yemen Country Office agrees to:

- i. Develop and implement evidenced-based, context-specific processes for consultation and participation of affected populations including mechanisms for collating the views of affected population in respect of interventions and responses that would impact their lives as well as documenting those views and how they are reflected in organizational decisions.
- ii. Develop and implement evidenced-based, context-specific processes for analysing and acting on the feedback, grievances, and complaints of beneficiaries of interventions and responses.
- iii. Adjust its processes for the development of programme documents to require formal consideration of AAP activities in the documents.

**Staff Responsible:** Deputy Representative – Programme / Sr. Project Coordinator / PMU

**Implementation Date:** i. 31 December 2023; ii. & iii. 30 June 2024

## 7. Prevention of sexual exploitation and abuse

High

*The YCO achieved a high level of completion of the mandatory training on the prevention of sexual exploitation and abuse and conducted the relevant assessments of all its civil society partners. However, it did not implement all actions outlined in its PSEA action plan.*

**PSEA action plan:** The country office developed a PSEA action plan and implemented appropriate measures that resulted in adequate awareness among UNICEF staff of the Organization's zero tolerance policy against SEA. It achieved a high level of completion of the mandatory training on PSEA and conducted the required SEA assessments of all its civil society partners and provided training to partners. Interviewed staff of four out of a total of 61 active civil society partners during the audited period had a general awareness of PSEA and relevant reporting requirements. However, government partners interviewed by the audit team were not aware of UNICEF's zero tolerance for SEA and relevant reporting and investigation requirements. Whilst Government implementing partners received more than 75 percent of the funding for UNICEF programmes, they were not required to develop and implement PSEA measures primarily because UNICEF had not mandated this requirement. Additionally, the planned training and sensitization activities for government partners as well as high-risk vendors such as

construction companies had not been fully implemented. YCO also did not finalize the planned development of community engagement strategies on PSEA and did not implement awareness campaigns at community level.

**PSEA measures of civil society implementing partners:** OIAI noted that the YCO had a process in place to ensure all civil society implementing partners had PSEA measures in place – the YCO had developed a suite of measures, which partners either adopted or tailored to their specific circumstances. However, the appropriateness of PSEA activities adapted to the specific conditions of partners and the effectiveness of these activities as well as the extent of the partners' compliance with UNICEF PSEA policy and procedures had not been regularly assessed. Whereas UNICEF requires (DAPM/PROCEDURE/2020/001) country offices to undertake these assessments during their programmatic visits, the YCO had relied entirely on TPM visits for assessment of partners' PSEA measures, which were not included in any of the third-party monitoring and assurance activities reviewed by the audit. Additionally, none of the sampled 15 programmatic visit reports out of a total of 498 TPM reports reviewed by the audit team included comments on or indicated that partners' PSEA measures were assessed. Failure to assess partners' PSEA implementation measures meant that there was a very high possibility that partners lacked adequate measures and that SEA taking place in UNICEF interventions could be going unreported, precluding the country office from taking appropriate remedial actions.

OIAI noted that PSEA monitoring did not occur because the tools and templates utilized by TMPs, and facilitators did not require them to verify the implementation of appropriate PSEA measures by partners. OIAI also noted that the implementation of traditional PSEA activities in the unique operating environment of the YCO was challenging and thus requires a context specific-communication strategy and tools for discussing PSEA with beneficiaries and training of trainers of TPMs on the use of these tools.

## RECOMMENDED ACTION

The Yemen Country Office agrees to:

- i. Adapt its PSEA strategy and action plan to the local context and operating environment.
- ii. Develop appropriate tools and templates that would require TMPs and facilitators to verify and report partners implementation of appropriate PSEA measures.
- iii. Develop context-specific awareness raising materials and put in place training to sensitize key counterparts, beneficiaries, and vendors on SEA issues (and UN policies) including how to report and obligations to remediate as applicable.
- iv. Incorporate context specific PSEA monitoring tools into the office monitoring and assurance activities.

**Staff Responsible:** Representative

**Implementation Date:** 31 December 2023

## 8. Unconditional social cash transfers

High

The Unconditional Cash Transfer (UCT) Project, formerly called Emergency Cash Transfer (ECT), targets 1.5 million households in Yemen. During the period covered by this audit, the country office disbursed approximately US\$348.4 million to beneficiaries during six payment cycles (PCs): PC 9 to PC 14.

The audit assessed the existing controls as adequate and effective to ensure that bona fide households promptly received payments under the UCT programme. The audit also noted that the country office had an appropriate process in place for the receipt and processing of beneficiaries' complaints in respect of their entitlements and for ensuring beneficiaries were aware of the reporting mechanisms available to them. However, as indicated below, the audit noted that due to the creation of a second currency and failure of UNICEF to take prompt corrective actions, the value of entitlements received by beneficiaries may have been negatively impacted during the first seven months of the period covered by the audit.

During the first seven months (January to July 2021) of the period covered by the audit - consistent with the arrangements put in place since the inception of the UCT project - the YCO fixed entitlements in Yemeni Rial (YER). To obtain the YER, the YCO provided US dollars (USD) to two Financial Service Providers (FSPs) requiring them to convert the USD using the YER/USD exchange rates agreed following the process undertaken by UNICEF to identify the most competitive exchanges rates that would be used. These were established in contracts signed by UNICEF and the FSPs in 2016. OIAI noted that these rates received the approval of donors for the UCT programme. However, the risks to beneficiaries' entitlements became elevated when a second monetary system and a second YER was introduced in mid-2017.

To manage the elevated risks to beneficiaries' entitlements that resulted from the creation of a second YER, in August 2021, the YCO fixed the amount that FSPs should pay to beneficiaries in USD starting from PC12. The country office also decided that the FSPs would pay beneficiaries in YER equivalent to the USD - this YER equivalent would be obtained by the FSPs converting the entitlements fixed in USD using the USD/YER market rates published by the Currency Traders Association (CTA) in the north and south a week before the start of the PC. OIAI assessed these measures as adequate to reduce the negative impact of exchange rate volatility on the amounts that beneficiaries received. During the period covered by the audit (January 2021 to December 2022), the YCO utilized these measures for PC12, PC13, PC14, and PC15. OIAI's review of relevant documents noted that the measures functioned as intended.

During the audit, OIAI became aware that some partners raised concerns that the FSPs were paying the lower value YER to beneficiaries and using the difference between both currencies for their own benefit. OIAI was unable to find conclusive evidence to substantiate the concerns raised. For example, a review of payment reports showed that both FSPs used YER as their payment and reporting currency. The reports did not indicate whether the YER used was the one issued in the north or south of Yemen. OIAI was informed that, in January 2020, the authorities in the north banned the use of the new YER issued by the authorities in the south. However, the country office told OIAI that the ban was never effectively enforced, and the old YER continued to be accepted in both the north and south of the country and that the currency printed in the south was banned in the north. OIAI noted that if both FSPs provided the same YER to their agents for onward payment of beneficiaries, there remained the risk that the agents were using lower value YER to pay beneficiaries. At the time of the audit, the YCO was working with the relevant parties to appropriately address the concerns raised. Therefore, no specific action is deemed warranted in this report.



# APPENDIX





## Definitions of Audit Observation Ratings

To assist management in prioritizing the actions arising from the audit, OIAI ascribes a rating to each audit observation based on the potential consequence or residual risks to the audited entity, area, activity, or process, or to UNICEF. Individual observations are rated as follows:

<b>Low</b>	The observation concerns a potential opportunity for improvement in the assessed governance, risk management or control processes. Low-priority observations are reported to management during the audit but are not included in the audit report. Action in response to the observation is desirable.
<b>Medium</b>	The observation relates to a weakness or deficiency in the assessed governance, risk management or control processes that requires resolution within a reasonable period to avoid adverse consequences for the audited entity, area, activity, or process.
<b>High</b>	The observation concerns a fundamental weakness or deficiency in the assessed governance, risk management or control processes that requires prompt/immediate resolution to avoid severe/major adverse consequences for the audited entity, area, activity, or process, or for UNICEF.

## Definitions of Overall Audit Conclusions

The above ratings of audit observations are then used to support an overall audit conclusion for the area under review, as follows:

<b>Satisfactory</b>		The assessed governance, risk management or control processes were adequate and functioning well.
<b>Partially Satisfactory, Improvement Needed</b>		The assessed governance, risk management or control processes were generally adequate and functioning but needed improvement. The weaknesses or deficiencies identified were unlikely to have a materially negative impact on the performance of the audited entity, area, activity, or process.
<b>Partially Satisfactory, Major Improvement Needed</b>		The assessed governance, risk management or control processes needed major improvement. The weaknesses or deficiencies identified could have a materially negative impact on the performance of the audited entity, area, activity, or process.
<b>Unsatisfactory</b>		The assessed governance, risk management or control processes were not adequately established or not functioning well. The weaknesses or deficiencies identified could have a severely negative impact on the performance of the audited entity, area, activity, or process.



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