Office of Internal Audit and Investigations

Report on the Internal Audit of the

ETHIOPIA COUNTRY OFFICE

OCTOBER 2023

Report 2023/18

CONTENTS

EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the Ethiopia Country Office, covering the period from 1 January 2022 to 31 March 2023. The audit was conducted from 6 to 31 March 2023 in accordance 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 over a selection of significant risk areas of the Ethiopia Country Office, including workforce structure and management; risk management (including fraud risk management); programme planning and monitoring; accountability to affected populations; partnership management; cash transfers to implementing partners; humanitarian cash transfers; Harmonized Approach to Cash Transfers (HACT) assurance activities; procurement, management and distribution of supplies; construction management; and management of service contracts. The descriptions of the specific risks evaluated are provided in the Audit Objectives, Scope and Approach Section of this report.

The Ethiopia Country Office operates in a complex humanitarian setting with more than 20 million women, men and children requiring urgent assistance. In May 2021, UNICEF declared an L3 emergency to respond to the security crisis in northern Ethiopia, and in September 2022, a second L3 was announced in view of the severe drought in the eastern and southern parts of the country. An L3 emergency is the highest level of the United Nation's (UN) three-tiered classification system for humanitarian emergencies signifying a large-scale humanitarian crisis that requires a coordinated response. The declaration of an L3 emergency triggers the activation of specific mechanisms and resources, such as deployment of additional personnel, funding, and logistical support. It also allows country offices to adjust their risk appetite and use simplified internal control processes, where this facilitates timely support to affected populations. The audit took these factors into account in evaluating the Ethiopia Country Office's governance, risk management and control processes.

During the period audited, the Country Office transferred approximately US$178 million to implementing partners and spent approximately US$148 million on programme supplies. It supplemented its workforce with consultants and technical assistance to increase its access to the hardest-to-reach people. There were several risks related to its workforce structure, supply chain management, cash transfers to implementing partners and programme monitoring. Exacerbated by the humanitarian crisis, the country context indicated a high-risk environment for sexual exploitation and abuse of children and women. The audit therefore sought to determine whether and how the Country Office managed those risks.

Overall Conclusion

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

Based on the audit work performed, OIAI concluded that the assessed governance, risk management, or control processes were **Partially Satisfactory, Major Improvement Needed,** meaning that 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.

Summary of Observations and Agreed Actions

OIAI noted several areas where the Ethiopia Country Office's controls were adequate and functioned well:

- **Water sanitation and hygiene (WASH) rapid response mechanism:** As part of the L3 emergency response, the Country Office developed a standard operating procedure for a WASH rapid response mechanism. This allowed WASH programme activities to commence as soon as alerts were received from implementing partners, without having to wait for pre-authorization. A sample of civil society organizations (CSO) selected for audit testing included three with signed contingency programme documents that were activated promptly in line with this simplified procedure.

- **Prevention of sexual exploitation and abuse (PSEA):** The approach to PSEA was clearly articulated in the UNICEF humanitarian appeal for children and in the CSO humanitarian programme documents. The Country Office recruited a dedicated PSEA officer and developed a PSEA action plan that was presented at country management team meetings and monitored on an ongoing basis. Staff and third-party monitors were trained in PSEA, and cluster representatives received 'training-of-trainer' training.

The audit team also made a number of observations related to the management of the key risks evaluated. In particular, OIAI noted:

- **Workforce structure and management**: Forty-seven per cent of the Country Office's 533 staff positions were based in Addis Ababa, while most programmatic activities were implemented by the eight field offices. The Country Office also had 598 supplementary personnel, including 477 consultants, hired through a third-party service provider, and 121 technical assistants, hired directly by the Government and funded by UNICEF. While this structure provided technical expertise to support programme delivery in the field offices and offered flexibility in the L3 context, there was no clear strategy which specified the level, nature and purpose of supplementary human resources. For example, it was unclear whether the UNICEF-funded government positions were intended to build national capacity or fill staffing gaps. Furthermore, there were weaknesses in the management and oversight of consultants, and reliance was placed on the same HR service provider for 12 years, with no contractual review or audit to provide assurance that the resources provided remained cost-effective and aligned with country programme needs. After the completion of fieldwork for this audit, another United Nations entity blacklisted the HR service provider following its investigation of this vendor. At the time of issuance of this audit report, the service provider had appealed the blacklisting decision. UNICEF was considering appropriate measures to manage the heightened risks associated with its own contractual position with the blacklisted vendor and the continuity of the Country Office's programme delivery.

  Due to the protracted gaps in senior leadership and the various emergency responses, no review of the Country Office's workforce structure, capacity or skills had been performed since 2019. There was a need to review the staffing structure and the appropriateness and sustainability of the supplementary workforce structures and skills base to ensure optimal deployment of staff across all locations within budgetary constraints. There was also a need to update and communicate staff accountabilities, enhance communication between sections and improve the performance management and oversight of consultants.

- **Fraud risk management:** In view of the significance of commodities and cash transfers for humanitarian assistance and the access and monitoring challenges in conflict zones, the Ethiopia Country Office is exposed to a high risk of fraud. While the Country Office's risk register included several fraud-related risks, the approach to risk assessment did not differentiate between regions or ensure coverage of all fraud risk categories. In a vast country like Ethiopia, assessing fraud risk on a regional basis can facilitate better informed decisions about implementation of the country programme by each field office and the degree of internal control and oversight required. Consideration of specific fraud risk categories, such as asset misappropriation, corruption, bribery and conflict of interest, as well as risks related to individual activities, such as cash transfer and supplies to partners, cash assistance to beneficiaries, procurement or construction, ensures that no key risk areas are overlooked. The audit team identified several weaknesses in internal controls that are intended to reduce the Country Office's exposure to the risk of fraud. Those included, for example, partner capacity assessments, cash transfer assurance activities and end-user monitoring.

- **Monitoring of distribution of supplies to beneficiaries:** The Country Office distributes ready-to-use therapeutic food (RUTF) on a quarterly basis to more than 22,000 health facilities. A technical report produced in 2013 highlighted the risk of 'leakage' of these supplies at different stages of the distribution process. In 2022, the Country Office became aware of RUTF being resold on the local market and the loss of RUTF supplies during transit between warehouses. However, there was no systematic approach to ensure that information on the loss or diversion of supplies was collected and acted upon and that control weaknesses in the supply chain were identified and addressed. Furthermore, the Country Office had not implemented an adequate system to verify that supplies were distributed to the intended final beneficiaries. In April 2023, evidence of systematic diversion of food aid in Ethiopia led to the US government pausing its food aid to the country until changes to the distribution system are made. The United Nations Ethiopia Country Team has established a task force to deal with this issue holistically. Nutrition supplies are exempt from this suspension of food aid. Nevertheless, UNICEF has stated its intention to review the Country Office's internal control and risk mitigation measures to monitor current and potential diversions and last-mile delivery of RUTF commodities and to determine any additional checks and balances needed. Key donors and partners will be informed of progress with the review and any additional safeguards introduced to demonstrate that appropriate actions are being taken.

The table below summarizes the key actions management has agreed to take 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 Recommended / Agreed Action**	**Rating**
Governance	**Workforce structure and management (Observation 1)**: Perform an analysis of the skills and capacity needed internally and the nature, extent and purpose of any supplementary staffing structures, as a basis for determining a sustainable, affordable workforce structure and establish a roadmap for its implementation - this analysis should determine the strategy for the provision of technical assistance to government partners. Enhance the mechanisms for engagement and management of consultants engaged through HR service providers and take appropriate measures to manage the heightened risks associated with the principal HR service provider; and ensure that the Country Office's accountability framework is periodically reviewed and communicated to all staff.	**High**

Risk management	**Fraud risk management) (Observation 2)**: Conduct a fraud risk assessment that adequately reflects the operating environment and considers different fraud types as well as region- and activity-specific risks, as a basis for developing and implementing a fraud risk action plan and related training and communication activities.	**High**
Controls processes	**Programme planning and monitoring (Observation 3)**: Conduct an annual programme review to assess the ongoing validity of planning assumptions and to strengthen linkages between humanitarian and development plans and continue efforts to ensure that annual and mid-year reviews with government implementing partners are performed.	**Medium**
	Accountability to affected populations (Observation 4): Finalize and implement the AAP action plan, including training, oversight and collaboration with key stakeholders and partners to achieve an integrated, common approach to AAP across all programmes.	**Medium**
	HACT assurance activities (Observation 8): Establish a mechanism to update implementing partner risk ratings and adjust the scope of planned assurance activities as needed. Enhance staff capacity in the performance and oversight of HACT assurance activities and implementation of recommendations.	**Medium**
	Supply and logistics management (Observation 9): Conduct a detailed, comprehensive review of the nutrition (RUTF) supply chain, including assessment of key risks and controls, as a basis for determining additional risk mitigation measures. Establish an implementation plan with clear accountabilities and timelines, and a mechanism to ensure effective monitoring and reporting of progress with implementation. Ensure that any future RUTF leakages or losses are quantified, that fraud risk reporting requirements are respected and that the associated risks are included in the Country Office risk register to ensure visibility and ongoing tracking and monitoring. Strengthen monitoring of last-mile delivery of supplies by ensuring that end-user monitoring forms are fully operationalized so that information related to programme supplies are centralized and monitored and issues raised acted upon.	**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

Country context and operating environment

Ethiopia is a low-income country with a population of approximately 121 million, 46 per cent of which are children under the age of 18. The population is projected to reach 145 million by 2030, and the urban population is expected to grow from its current 21 per cent to 31 per cent by 2037. Good quality education and training in relevant skills are essential if the country is to realize the benefits of productive employment amongst its youthful population. Although the country has made progress toward several of the Sustainable Development Goals,[1] including access to basic sanitation services and an increase in the proportion of births attended by skilled health personnel, Ethiopia still faces major development challenges, including widespread poverty.

The country faces security issues because of internal conflicts, most notably in the northern Tigray Region. It is also highly vulnerable to natural disasters and the effects of climate change, including severe drought and flooding, which lead to greater food insecurity, health risks and poverty. These vulnerabilities threaten overall child wellbeing, since children may be exposed to violence, exploitation and abuse, child marriage, child labour and very low birth registration rates.

Context of key risk areas covered in the audit

UNICEF Ethiopia's 2022-2025 country programme has a total budget of US$599 million. It covers six programmatic areas: child protection; health; learning and development; nutrition; social policy, evaluation and research; and water, sanitation and hygiene.

UNICEF activated Level 3 corporate emergency scale-up procedures in May 2021, to respond to the security crisis in northern Ethiopia, and again in September 2022, to support the drought crisis. The Country Office launched Humanitarian Action for Children appeals in both 2022 (for US$532.4 million) and 2023 (for US$674.3 million).

A global response to multiple Level 3 emergencies requires strong leadership at country office level to operationalize humanitarian actions and manage multiple risks. In 2021/2022, the Ethiopia Country Office experienced a lack of stability in its senior leadership, with an interim Representative in place for 15 months and the departure of both Deputy Representatives at almost the same time. The current Representative assumed duties in December 2022, while the Deputy Representative Operations and Deputy Representative Programme took up their posts in August 2022 and October 2022 respectively. Protracted or multiple vacancies at the senior management level can be a barrier to effective stakeholder relationships and programmatic engagement, impacting institutional knowledge, management oversight and the quality of the overall office control environment. Country office senior leadership appointments are managed by UNICEF's global Division of Human Resources as part of the senior staff rotation and reassignment exercise and are not therefore within the scope of this audit of the Ethiopia Country Office. However, the extended period of management instability in recent years may have

1 https://unstats.un.org/sdgs/dataportal/countryprofiles/ETH

reduced the Country Office's ability to manage certain risks noted in this report and is therefore important context for the audit.

The Country Office has a total workforce of 474 posts (88 international professionals, 215 national officers and 172 general service posts). As at June 27, 2023, there were 17 vacant posts (3 international professionals, 11national officers and 3 general service staff). The UNICEF Country Office is based in Addis Ababa and there are eight zone offices in Semera, Bahir Dar, Gambella, Awasa, Jijiga, Mekelle, Oromiya and Afar.

Figure 1 below shows that most of the resources raised during the audited period were spent on nutrition, WASH and health-related activities, including the purchase of nutrition and health supplies and installation of WASH facilities.

Figure 1: 2022-202 expenditure by outcome

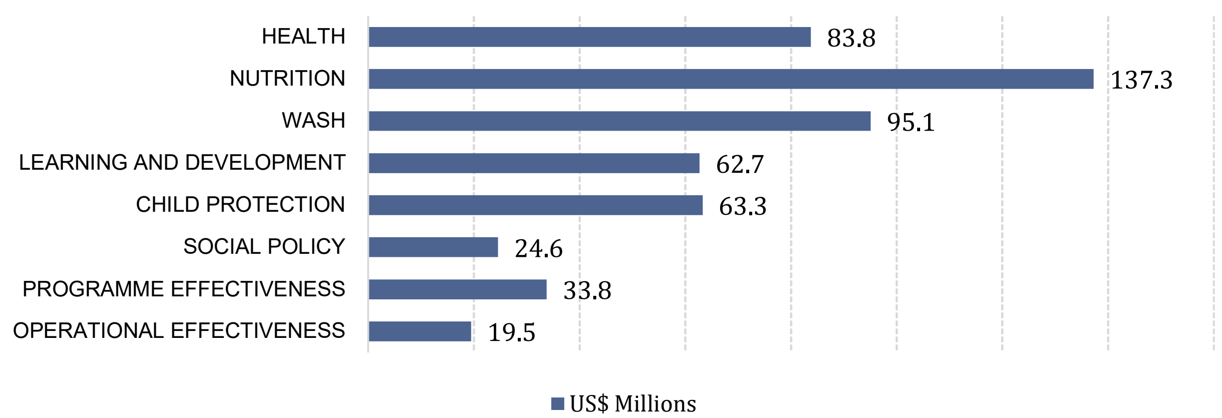
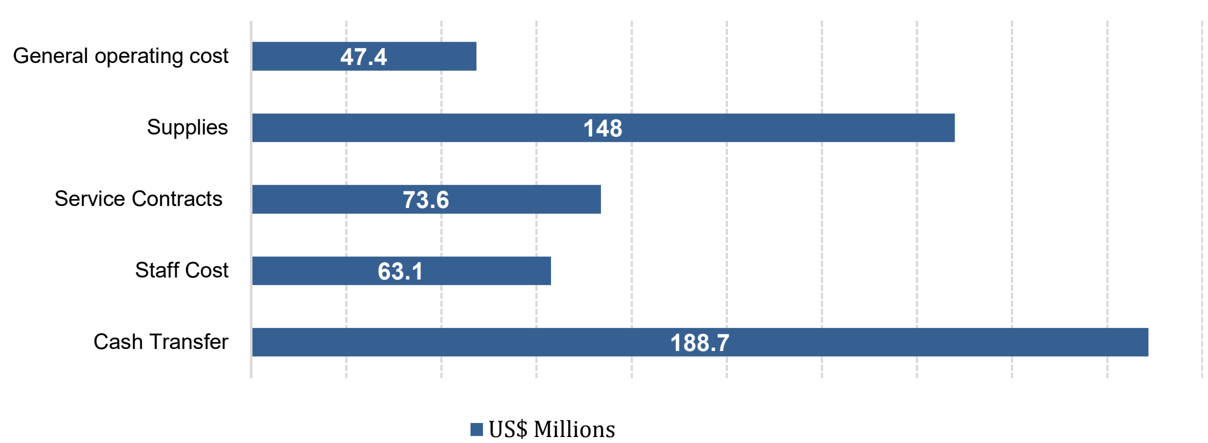


Figure 2 shows that the most significant categories of expenditure during the audited period were cash transferred to government partners and civil society organizations for programme implementation (US$188.7 million) and supply assistance (US$148 million).

Figure 2: 2022-2023 expenditure by category



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 of the Ethiopia Country Office.

The audit scope included the key areas set out in the following table that were selected during the audit planning process based on an assessment of inherent risks.[2]

RISK AREA	KEY INHERENT RISKS EVALUATED DURING THE AUDIT
Workforce structure and management	The Country Office may not be appropriately structured to ensure that the right skills and capacity are available in the right locations, using appropriate contract modalities, to support effective programme delivery and emergency response. Prolonged gaps and recent changes in management may have impeded effective oversight in the Country Office, which has eight zone offices and experienced multiple emergencies.
Fraud risk management	Insufficient assessment, monitoring and communication of fraud-related risks and allegations may hamper efforts to prevent, detect and respond to fraud.
Prevention of sexual exploitation and abuse	Measures may not be adequate to mitigate the risk of beneficiaries, partners and staff being exposed to sexual exploitation and abuse (SEA), and of SEA incidents not being reported. Inadequate management of PSEA may expose the Country Office to reputational or legal risks.
Programme planning and monitoring	There were approximately 115 government-approved workplans, with a financial rather than results-based focus, which may make it difficult to ensure alignment of individual workplans and the overall country programme. Not adequately formulating and adjusting results indicators and targets may reduce the Country Office's ability to measure progress in achieving planned results.
Accountability to affected populations	Not adequately reflecting AAP principles in humanitarian and development programming may prevent the affected children and their families from participating in the decisions that affect their lives.
Partnership management	Partnering with civil society entities without the necessary capacity and untimely processing of partnership agreements may impact programme implementation.
Cash transfers to implementing partners	In view of the L3 emergencies, the Country Office disbursed US$121 million in cash to 170 implementing partners. Inadequate implementation of key controls over cash transfers presents an increased risk of inefficiencies, fraud, waste and misuse of UNICEF funds.
Humanitarian cash transfers	In 2022, cash transfers were made to 233,716 people affected by conflict, drought and floods. The cash transfer programmes were implemented fully by the Government, limiting UNICEF's visibility and control of key processes to ensure that the intended beneficiaries receive the full amount of cash assistance.
HACT assurance activities	The Country Office may not properly plan and execute sufficient spot-checks, audits and programmatic visits to obtain assurance that cash transfers made to implementing partners were used for their intended purposes.
Procurement, management and distribution of supplies	For the period January 2022 to February 2023, the Country Office procured US$155 million of supplies. Weaknesses in supply chain activities may result in misuse of funds, untimely delivery or wastage of essential supplies.

[2] Inherent risk refers to the potential adverse event that could occur if management takes no actions, 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.

	Inadequate supply end-user monitoring increases the risk that intended beneficiaries do not receive the supplies they need.
Construction management	The Country Office spent approximately US$13.6 million (9 per cent of total procurement) on construction activities. Construction activities can be complex with high levels of inherent risk and require appropriate planning, management and oversight, as well as adequate capacity and technical expertise to ensure effective use of funds in support of programmatic objectives.
Management of service contracts	The Country Office issued contracts for services amounting to US$27.2 million during the audit period. Inadequate controls over the procurement and management of service contracts may result in non-delivery of the agreed-upon services, resulting in financial loss, poor value-for-money or operational disruption.

The audit was conducted through remote preparatory interviews with Country Office management and an on-site visit from 6 March 2023 to 31 March 2023 in accordance with the Code of Ethics and International Standards for the Professional Practice of Internal Auditing. For the purpose of audit testing, the audit covered the period from 1 January 2022 to 31 March 2023. The audit involved a combination of methods, tools, and techniques, including interviews, data analytics, document review, tests of transactions, evaluations and validation of preliminary observations.

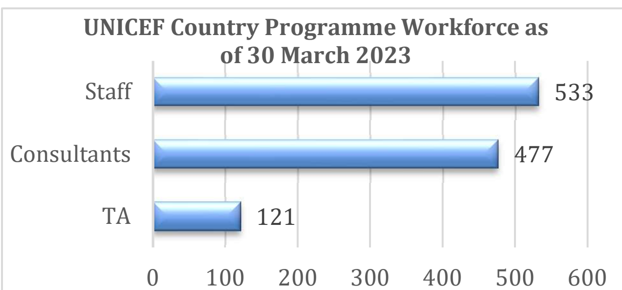
OBSERVATIONS AND MANAGEMENT ACTION PLAN

The key areas where actions are needed are summarized below.

1. Workforce structure and management — High

No review of the Country Office's workforce structure, capacity or skills had been performed since 2019. The staffing structure and the appropriateness and sustainability of the supplementary workforce structures and skills base needed to be reviewed to ensure optimal deployment of staff across all locations. Staff accountabilities needed to be updated and communicated; communication between sections needed to be enhanced; and the vendor selection process, performance management and oversight of consultants needed to be improved. The Country Office needed to take immediate action to manage the risks associated with the principal HR service provider identified through its recent blacklisting by another United Nations entity.

In 2020, the Country Office prepared a Country Programme Management Plan (CPMP) to support the delivery of the 2020-2025 country programme. This followed a comprehensive management review and human resources analysis, which formed the basis of the proposed new Country Office structure. A skills gap analysis was subsequently conducted to support successful implementation of the new country programme.



As at 30 March 2023, the Country Office had 533 staff, including 380 on fixed-term contracts, 78 on temporary contracts and 40 consultants, as well as United Nations volunteers and interns. In addition to these staff, it had 598 supplementary personnel, including 477 consultants, hired through a human resources (HR) management company, and 121 technical assistants, hired directly by the Government and funded by UNICEF through cash transfers, in accordance with government-approved work plans.

The audit team evaluated the controls over key risks related to workforce planning, as well as the recruitment, management and monitoring of supplementary staffing structures and made the following observations.

Country Office staffing structure: In addition to the main Addis Ababa Country Office, there were eight field offices and two outposts. OIAI noted that 252 of the 533 staff positions (or 47 per cent) were based in Addis Ababa, while most programmatic activities were implemented and monitored at field office level. Country Office management confirmed the importance of having technical experts to support programme delivery in all field offices, as well as the challenges of exercising sufficient oversight of field office activities from the central Country Office. Management acknowledged the need to review the current structure and determine the optimal deployment of staff across all office locations within budgetary constraints.

Clarity of accountabilities: Each field office was managed by a Chief Field Officer, although reporting lines and responsibilities varied from one office to another. Audit discussions with the Chief Field Officers revealed a need for greater clarity in their roles and responsibilities and better coordination between field office and Addis Ababa staff. For example, the audit team noted an instance where programme activities were implemented by an international CSO at the local level without any input or guidance from the field office concerned. Also, weaknesses in HACT assurance activities resulted partly from poor coordination between Addis Ababa and the field office. The audit team noted that the Country Office accountability framework did not adequately reflect the management structure and responsibilities of the various field offices and omitted the outposted staff, their roles and responsibilities. Without clearly documented, communicated accountabilities, there is a risk that staff may not fully understand their responsibilities and that there may be duplication of effort and/or poor coordination of activities leading to inefficient or ineffective delivery of the country programme.

Supplementary staffing structures: The CPMP outlined the benefits of supplementary staffing structures to complement internal staff. For example, third-party personnel were hired to perform various programme-related activities in areas that are inaccessible to UNICEF staff members, for security reasons. However, the document also highlighted challenges associated with these arrangements. For example, with respect to third-party 'extenders', hired to monitor field activities, concerns were raised about the quality of their work, the degree of oversight required and generally high cost. Other issues raised by the CPMP related to the funding of government technical assistance (see below) and the significant number of staff employed on temporary contracts or engaged as long-term consultants.

The CPMP suggested several mitigation measures to reduce the Country Office's dependence on external support and ensure a sustainable, affordable staffing structure. However, no overall HR capacity or skills assessment had been performed since 2019 and there was no clear strategy which specified the level, nature and purpose of supplementary human resources. This was due to the gaps and recent changes in senior leadership, as well as the various emergency responses. The Country Office management accepted that there was a need to review the appropriateness and sustainability of the supplementary workforce structures to support delivery of the country programme.

Government technical assistance: The Country Office transferred cash of approximately US$1.5 million per annum to government partners for the payment of a significant number of government staff salaries. The CPMP questioned whether this was to support national capacity-building or to fill staffing gaps, the latter which may weaken national ownership and be unsustainable in the longer term. OIAI was unable to find evidence of a clear strategy to support this use of funding. The Country Office management indicated its intention to review, in consultation with the Ministry of Finance, the need for and appropriateness of the technical assistance included in the work plans, to minimize the Government's dependence on these resources and to work towards a more sustainable resourcing structure.

According to the programme implementation manual[3] developed by the Ministry of Finance, technical assistance requirements should be reflected in the workplan of each government implementing partner. UNICEF should receive performance evaluations every six months and annual assessments of the technical support provided. OIAI's discussion with the relevant government authority indicated that no performance reviews or annual assessment had been performed in 2022. The Country Office explained that this was due to multiple emergencies and the crisis in Tigray. This failure to assess the quality and level of technical assistance provided to the Government limited the Country Office's visibility of any issues that might need to be addressed to ensure the most effective use of funds to achieve the objectives of the annual workplan.

Third-party consultants: The Country Office spent approximately US$7 million per annum on consultants. At the time of the audit, there were 477 consultants, which represented 42 per cent

3 Programme Implementation Manual for UN Agencies Assisted Programmes in Ethiopia, May 2021

of the total workforce. The Country Office had signed long-term contracts with two external human resources agencies for the recruitment and management of consultants.

The audit team noted that 87 per cent of the Country Office's total expenditure on HR service contracts (US$ 6.1 million) related to a single vendor, which had been retained by the Country Office for the past 12 years. The long-term agreement with this vendor gave UNICEF the right to audit the contract. However, despite the high value of the contract and significant reliance on this contractor for the delivery of the Country Office's mandate, no audit had been conducted nor had any market survey been performed to identify additional and alternative sources of similar services. The audit team also noted that the staff provided by this vendor were sent to field offices by the Country Office without first clarifying and formalizing the objectives, job descriptions or reporting lines. In fact, a review of payments made to the vendors indicated the lack of sufficient evidence of services provided.

After the completion of fieldwork for this audit, another United Nations entity blacklisted the HR service provider for fraudulent practices following its investigation of this vendor. At the time of issuance of this audit report, the service provider had appealed the blacklisting decision and UNICEF was considering appropriate measures to manage the heightened risks associated with its own contractual position with the vendor and the continuity of the Country Office's programme delivery. As at September 2023, the UNICEF Ethiopia Country Office had 64 open contracts totalling US$ 7.7 million, as shown in the table below.

OPEN CONTRACTS AS AT SEPTEMBER 2023		
Expiration Date	Number of Contracts	Open Balance (US$)
By April 2024	52	2,753,963
After April 2024	12	4,949,962
Total	**64**	**7,703,925**

AGREED ACTIONS

The Country Office agrees to:

(i) Conduct a comprehensive review of its workforce structure, drawing on the analysis conducted for the 2020 CPMP, as a basis for determining an optimal, affordable staffing structure and developing a roadmap for its implementation - the review should include an analysis of the skills and capacity needed internally and the nature, extent and purpose of any supplementary staffing structures, to ensure sustainability and to reduce dependence on external support;

(ii) Review and clarify the strategy for the provision of sustainable technical assistance to government partners and ensure that performance evaluations and annual assessments are conducted, as required;

(iii) Promptly take appropriate measures to effectively manage the risks associated with the principal HR service provider which have been heightened by the findings of wrongdoing by the provider by another United Nations entity;

(iv) Establish a mechanism to ensure coordination of requests for consultants, clear definition and communication of their objectives and effective supervision and monitoring of their work, including certification of services performed prior to payment of invoices;

(v) Update the accountability framework to reflect current roles and responsibilities, communicate changes to all staff and ensure that the framework is periodically reviewed to reflect changing contexts.

Staff Responsible: Deputy Representative, Operations (Lead) with Chief Field Operations &

Emergency, Chief PMU, Resource Mobilization Manager, Chief HR, Operations Manager
Implementation Date: (i) and (ii) July 2024; (iii), (iv) and (v) March 2024

2. Fraud risk management — High

There was a need to enhance the Country Office's approach to fraud risk assessment and to finalize and implement the fraud risk action plan, to ensure clarity of accountabilities for preventing, detecting and reporting fraud and effective training of all staff and implementing partners.

UNICEF's global anti-fraud strategy brings together the policy, procedures, guidance and tools for use by offices in strengthening the prevention, detection and response to fraud and misconduct in all its forms. However, ultimate responsibility for preventing, detecting and responding to fraud lies with the management of each office, which needs to take measures to identify, assess and mitigate fraud risks related to its own objectives and particular context. Considering the nature of humanitarian assistance, such as commodities and cash transfers, as well as the reality of working in conflict zones with limited access and monitoring challenges, the Ethiopia Country Office is exposed to a high risk of fraud. The audit evaluated the adequacy of the Country Office's approach to assessing and managing the risk of fraud in this context, including ensuring that staff and partners understand their accountabilities for fraud risk management and are equipped to prevent, detect and properly respond to any suspected fraudulent activity.

While the Country Office's risk register included several fraud-related risks, the approach to risk assessment was not structured to differentiate between regions or to ensure coverage of all fraud risk categories. For example, the management of risks of fraud, misuse and 'leakage' of the ready-to-use therapeutic food (RUTF) identified in Ethiopia was not adequately reflected in the risk register. At the time of the audit, the Country Office had not yet assessed the quantity of RUTF on the market, as noted elsewhere in this report. In a vast country like Ethiopia with multiple, diverse challenges, assessing fraud risk on a regional basis can facilitate better informed decisions about implementation of the country programme by each field office and the degree of internal control and oversight required. Consideration of specific fraud risk categories, such as misuse of funds, asset misappropriation or diversion, corruption, bribery and conflict of interest, as well as risks related to individual activities, such as cash transfer and supplies to partners, cash assistance to beneficiaries, procurement or construction, ensures that no key risk areas are overlooked. With respect to procurement activities, the risks related to overreliance on a single service provider for the delivery of a key aspect of the Country Office's mandate need to be assessed and managed before entering into or extending any contractual arrangement.

A structured, comprehensive fraud risk assessment provides a solid basis for determining what additional measures for prevention, detection and responding are needed, and what resources should be devoted to those measures. The audit identified several weaknesses in internal controls intended to reduce the Country Office's exposure to the risk of fraud, for example, the Corporate Emergency Activation Procedures and Level 3 Simplified Standard Operating Procedures (SSOPs) allow the use of simplified procedures in an emergency, allowing an office to accelerate procurement of essential items, construction activities or mobilization of staff. The Country Office did use the SSOPs, for example, to engage partners needed in the emergency. It also ordered large quantities of supplies to cater for significant increases in demand and opened a cash-on-hand account to facilitate payments. The Country Office was therefore adapting its operations to the evolving risk context on a day-to-day basis. However, the audit team noted several control weaknesses that might have been avoided, had the risks been managed in a more coherent, consistent, transparent manner by conducting partner capacity assessments, cash transfer assurance activities and end-user monitoring.

The Country Office acknowledged the need to strengthen its approach to risk management, which had been impacted by staff capacity limitations and unclear roles and responsibilities. The Country Office had recently begun to develop an anti-fraud strategy and intended to establish an action plan for the structured roll-out of UNICEF's global approach and tools for fraud risk management, including training of staff and implementing partners. A status report on the implementation of the anti-fraud plan and the completion rate of the mandatory online training was to be presented to the Country Management Team on a quarterly basis.

AGREED ACTIONS

The Country Office agrees to:

(i) As part of the 2023 annual risk assessment, conduct a fraud risk assessment that adequately reflects the operating environment and considers different fraud types as well as region- and activity-specific risks, as a basis for establishing adequate mitigating actions and for monitoring progress with implementation;

(ii) Develop and implement a fraud risk action plan, including a training and communication plan to ensure that all staff and partners understand their responsibilities to prevent, detect and respond to fraud and have sufficient skills to do so.

Staff Responsible: Deputy Representative Operations (Lead), with Quality Assurance Specialist
Implementation Date: March 2024

3. Programme planning and monitoring — Medium

There were weaknesses in formulating and adjusting output and outcome results, indicators and targets in the workplans, which did not therefore reflect key humanitarian interventions. This reduced the Country Office's ability to measure progress in achieving planned results across all areas of the country programme.

The audit reviewed the adequacy and effectiveness of the Country Office's processes for ensuring that programmatic activities are planned and monitored to achieve the desired results in development and emergency contexts and noted the following.

Strategic planning: During the first two years of the 2020-2025 country programme, Ethiopia experienced multiple crises that reshaped the context for implementation of the country programme. Although the country programme document did acknowledge challenges generated by humanitarian needs, the scale and impact of the emergencies led to a decision in 2022 by the Country Office management at the time to readjust the programming strategies. However, due to the two L3 emergencies affecting the country and the change in management, the planned review did not take place. With preparation for the next country programme document due to start in 2024 and to allow some stability, the new Country Office management also decided not to conduct a mid-term review in 2023. While not mandatory, a mid-term review can be useful to assess the impact of major changes or constraints and to revise the programme design. The Country Office did, however, recognize the value of assessing the need to adjust the country programme document and intended to conduct an internal review in 2023. This approach is aligned with guidance in the new Implementation Handbook for programmes facing humanitarian situations.

Work planning process: The Country Office was obliged to follow the rolling work planning process set out in the Ethiopian government's 'Programme Implementation Manual (PIM) for UN Agencies Assisted Programmes in Ethiopia'. Workplans were developed and signed with government implementing partners at national and regional levels. The audit team reviewed a sample of 2022/2023 workplans and noted that these covered only development interventions implemented with regular resources (RR) and other resources (OR) funding. Humanitarian activities (funded by humanitarian action for children (HAC) appeals) were planned and monitored separately and reflected in micro-plans signed with relevant government implementing partners. Not linking humanitarian and development activities was a missed opportunity to strengthen national institutions, build local capacities and contribute to sustainable social delivery systems.

Performance indicators: The rolling workplans included outcomes, outputs, progress indicators, baselines, annual targets and means of verification taken from the country programme document results matrix. The matrix focused on development indicators and had very few HAC-related output indicators. Annual HAC targets had not been reviewed and adjusted to the current L3 emergency context. As a result, for selected indicators, the achievements recorded in the results assessment module exceeded the country programme document targets by significant amounts, as shown in Figure 3 below for a sample of WASH and nutrition outputs and activities.

Figure 3: 2022 Ethiopia Country Office results assessment module

Indicators	Baseline Value	Target Value in 2022	Indicator Rating Type	Actual
1410/A0/07/003/003 003 RURAL WASH				
Number of people accessing a sustainable drinking water service	0	1,760,999	End-year	3,992,755 (227 %)
1410/A0/07/002/001 001 PREVENTION AND TREATMENT OF SAM				
Number of children aged 6-59 months with SAM who are admitted	321,603	483,780	assessment	626,904 (130%)

Source: Insight RAM 3.0

While the significant results achieved through humanitarian interventions were reported in the monthly humanitarian situation reports, the Country Office did not adjust the related country programme document targets. The Country Office had recognized the need to address this and had begun to develop a single data repository system to enable regular tracking of the status of both humanitarian and development indicators.

Annual and mid-year programme reviews: Although regular meetings were held with government implementing partners, no annual or mid-year reviews were conducted at the national level in 2022. Not conducting national level reviews could reduce the Country Office's ability to discuss and agree on results achieved and priorities for the year/following year, and to identify and address bottlenecks and constraints at the national level and inform planning adjustments to the theory of change. Those reviews are led by the Government and conducted with other UN agencies. They did not take place in the past few years due to the COVID-19 pandemic and the security situation in the country. The Country Office took steps in 2023 to initiate the process for reviews.

AGREED ACTIONS

The Country Office agrees to:

(i) Conduct an internal annual programme review to assess the ongoing validity of planning assumptions and to harmonize humanitarian and regular plans where feasible;
(ii) Strengthen the linkages between the humanitarian-development nexus and resilience-building by ensuring that annual output targets reflect humanitarian targets as represented in the HAC appeal and inter-agency response plan;
(iii) Continue efforts to establish a database that will facilitate the collection and analysis of monitoring data for humanitarian and development interventions;
(iv) Continue efforts to ensure that annual and mid-year reviews with government implementing partners are carried out.

Staff Responsible: Chief PMU (Lead) with Resource Mobilization Manager
Implementation Date: (i), (ii) and (iv) December 2023; (iii) June 2024

4. Accountability to affected populations — Medium

The Country Office had not finalized its accountability to affected populations (AAP) action plan, thus limiting its ability to enhance the relevance and impact of its interventions on target populations by collating and reflecting their views in designing those interventions.

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. UNICEF's 2022-2025 AAP[4] strategy articulates the goal as ensuring that affected children and families participate in the decisions that affect their lives, are properly informed and consulted, and have their views acted upon. In practical terms, this requires all country offices to integrate AAP into their plans, with appropriate technical and financial support, and to ensure that country programmes are informed by the views, participation and feedback from communities. The audit reviewed the overall governance set-up of AAP; its inclusion in the country office's strategic, programmatic, and humanitarian documentation; incorporation in the programmatic monitoring processes; as well as the setup and functioning of the mechanisms for feedback collection, complaints, and grievances.

AAP is important in Ethiopia, as the Country Office has a large emergency programme. AAP was reflected in various programme documents and an AAP strategy was clearly articulated in the humanitarian programme documents. A United Nations agency-wide AAP Action Plan for 2022-2023 was developed and endorsed by the Ethiopia Humanitarian Country Team (HCT). The plan was being implemented through clusters and partners that are part of the AAP Working Group of which UNICEF is a member.

[4] UNICEF subscribes to the Inter-Agency Steering Committee's (IASC) 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.

In December 2020, the Country Office started developing its own AAP action plan. However, as a result of the lack of continuity in Country Office management during 2021, the AAP action plan was still in draft format at the time of audit. The draft AAP action plan included several recommendations from the Country Office's self-assessment and other external reviews that had not yet been implemented. For example, an AAP task force had not yet been established and AAP was not a standing agenda item in the CMT/PMT to ensure regular tracking of progress with implementation of the AAP action plan. Not finalizing and implementing the AAP action plan may reduce the Country Office's ability to ensure that effective measures are being implemented to strengthen AAP.

The audit team reviewed a sample of programme and humanitarian programme documents and noted that AAP was mentioned in those documents. However, information related to beneficiary feedback was not recorded in the relevant sections of the programmatic visit and end-user monitoring reports completed by third-party monitors. Not fully using those monitoring tools to collect beneficiary feedback reduced the Country Office's ability to collect and incorporate beneficiary feedback in its programming.

An AAP 'community voices' platform dashboard was established and managed by the AAP Working Group in Ethiopia. From January to December 2022, this group consolidated and analysed more than 21,000 community feedback items collected and submitted by twelve humanitarian partners. The audit team noted that although some CSOs that have a signed partnership agreement with UNICEF were members of the community of voices, UNICEF was not a member. Not effectively working with other UN agencies and partners was a missed opportunity for the Country Office to leverage resources and mainstream AAP in its humanitarian activities.

AGREED ACTIONS

The Country Office agrees to:

(i) Finalize and implement the AAP action plan and ensure that adequate oversight mechanisms are in place;
(ii) Train staff and third-party monitors on AAP and ensure that there are processes for analysing and acting on feedback, grievances, and complaints of beneficiaries collected;
(iii) Leverage feedback mechanisms and processes developed by the AAP Working Group in Ethiopia to achieve an integrated approach to AAP across all programmes by collaborating with key stakeholders and partners.

Staff Responsible: SBC Manager (Lead), with Chief PMU and Chief Field Operations

Implementation Date: (i) October 2023; (ii) September 2023; (iii) October 2023

5. Partnership management — Medium

There were weaknesses in the Country Office's processes for the selection and management of implementing partners that may reduce the value of partnerships to achieve better results for children and result in loss or misuse of resources and reputational damage.

From January 2022 to February 2023, the Country Office entered partnership agreements with 62 CSOs and transferred cash and supplies to them worth US$54.7 million. The number of partnerships had increased significantly to support the humanitarian response. The audit aimed to determine whether the selection of CSOs was fair, transparent and competitive, resulting in partners with adequate capacity to deliver timely, cost-effective goods and services to beneficiaries, in support of planned programme results. It also assessed whether programme documents were processed and cash disbursed to partners on a timely basis. The audit team noted the following areas for improvement.

Selection of CSOs: In the humanitarian context, the selection of partners is guided by the CSO's humanitarian response capacity. Country offices may therefore accept higher operating costs than usual. The audit team noted that, of the US$54.7 million transferred to CSOs, US$46.3 million (or 85 per cent) was disbursed to international CSOs with high overhead and operating costs. Only US$8 million (or 15.4 per cent) was transferred to national CSOs, even though most activities were community-based interventions which may have benefitted from more local experience and understanding. Also, when UNICEF country offices approve an implementing partner's request to subcontract substantial components of programme activities, consideration should be given to the level of risk of UNICEF resources being transferred to the subcontracted entity and the appropriateness of the assessment of the financial management capacity of the subcontracted entity. The audit team found that, in one instance, an international CSO had sub-contracted its field operations in Jidjiga to a local CSO. While the local CSO was mentioned in the signed humanitarian programme document, the nature of its involvement was not fully disclosed, which indicated that the Country Office did not conduct the necessary due diligence before engaging the partner.

Completion of programme documents: During the period under review, 35 out of 54 humanitarian programme documents were signed after the UNICEF benchmark of 15 working days. Ten were signed more than 60 days after their submission. Five of 13 regular programme documents were signed after the benchmark of 45 working days, including three that were signed after 60 working days. A lengthy partnership development process increases the risk that life-saving interventions to affected populations may be delayed. The Country Office management was aware of these delays, had analysed the causes of the delays and, in March 2023, introduced a new system to reduce the time taken to complete partnership agreements.

Amendment of programme documents: UNICEF's L3 emergency procedures allowed offices to revise existing programme documents and include new outputs or activities related to emergency interventions or to develop new humanitarian programme documents. The Country Office made several amendments to programme documents to accelerate the response to emergencies. However, two of the five CSOs visited by the audit team raised concerns about the short duration of programme documents. For example, some programme documents did not factor in potential delays in cash disbursement to partners. In an L3 humanitarian context, significant increases in programme outputs/activities are allowed, without a partner capacity assessment, to utilize time-limited emergency funds. One CSO indicated that this could result in a partner being unable to implement the agreed activities. There was, therefore, a need to address partner concerns about programme document amendments to ensure efficient programme delivery and ongoing willingness of CSOs to partner with UNICEF in emergency situations.

Partner management of supplies: The audit team noted that some programme documents had a significant supply input component. Given the L3 context, procurement was approved and supplies were received without prior assessment of the procurement or warehouse management capacity of the partner. The risk ratings of CSO partners were not adjusted to reflect the operating context, and the HACT assurance activities included in the humanitarian programme document submission form did not include assessment of warehouse management and logistics capacity, despite the substantial volumes of supplies included in the programme documents. OIAI visited one partner's warehouse and noted poor storage conditions, including some supplies stored outside without adequate security. Without warehouse capacity and quality assessments and a clear supply distribution plan, there was a risk of loss or deterioration of stock and that supplies delivered to partners might not reach the intended beneficiaries.

AGREED ACTION

The Country Office agrees to strengthen its partnership management by:

(i) Performing a post-implementation review of the effectiveness of the new system introduced to reduce the time taken to process partnership agreements;

(ii) Ensuring that CSO partnership agreements with large supply components include adequate risk mitigation measures, for example, assurance activities related to procurement, warehouse management and logistics assessment.

Staff Responsible: Chief PMU (Lead) with Chief Supply
Implementation Date: (i) October 2023; (ii) November 2023

6. Cash transfers to implementing partners — Medium

There were weaknesses in staff and partner capacity and insufficient oversight of the cash transfer process that increased the risk of incorrect, inappropriate or late disbursement of funds, leading to potential misuse of funds or delays in implementation of country programme activities.

From 1 January 2022 to 28 February 2023, the Country Office transferred US$132.67 million to 114 government partners and 61 civil society organizations through direct cash transfer, cash reimbursement and direct payment. This represented 34 per cent of the total programme expenditure for the audited period. The audit assessed the adequacy and effectiveness of controls over cash transfer requisition, processing, disbursement and liquidation to ensure that cash transfers are released to partners for timely implementation of planned activities and are promptly and accurately accounted for.

The Funding Authorization and Certificate of Expenditure (FACE) form is used by partners to request cash advances, direct payments or reimbursements and to report financial information on activities performed to the UNICEF country office, sufficient to provide some assurance that funds disbursed were used for the intended purposes. FACE form requests should be submitted with an itemized cost estimate or micro-plan setting out the activities to be implemented within a given timeframe. The audit reviewed the completeness, accuracy and timeliness of FACE forms for a sample of 35 direct cash transfers, two direct payments and six cash reimbursements. It also verified that the FACE forms and payments were approved at the appropriate level of management to make sure the activities were in line with strategic objectives of the Country Office. The audit team noted the following exceptions.

Eight of 43 FACE request forms did not contain sufficient information to enable the Country Office to verify that only prior-authorized activities were implemented in the agreed period. For example, several FACE forms described outputs or outcomes instead of activities to be performed, reducing the ability to ascertain which activities were planned to be implemented in a specific period. In 18 cases, the forms were not supported by a financial report for activities performed. The audit team noted that, while the FACE forms showed that actual costs incurred were in line with budgeted expenditure, spot-check tests performed as part of the HACT assurance activities identified a lack of supporting evidence for the expenses claimed, thus creating a risk that all funds were not actually used for the purposes intended.

In 12 of 43 FACE forms reviewed, there were inconsistencies in the implementation timeframe. In some instances, the FACE request forms did not specify the implementation timeframe and in others, the FACE request and reporting forms did not have the same implementation period. For example, a CSO requested a payment of US$ 380,243 for a WASH intervention ending in June 2022 but the narrative report indicated that the activities were completed in July/August 2022. Extensions to the implementation timeframe were reflected in amendments to the programme documents but not on the FACE form. This reduced the Country Office's ability to identify ineligible activities, for example, activities initiated after expiry of the programme document or grant.

The audit team noted that in two of the six reimbursements reviewed, pre-authorization requests amounting to US$1.46 million were approved after commencement of programme activities. In one instance, however, this was due partly to the late payment of a direct cash transfer previously requested by the CSO.

OIAI noted that, as at 28 February 2023, there were direct cash transfers amounting to US$4.4 million that related to expired grants. There was a risk that implementing partners might use funds received shortly before expiry of a grant to carry out programmatic activities after the grant expiry. The Country Office informed OIAI that steps had been taken to block payment of these direct cash transfers.

The above exceptions were indicative of inadequate partner and staff capacity and insufficient oversight and monitoring of cash transfer processes by UNICEF staff and third-party monitors, in particular in relation to grants with a short duration.

AGREED ACTION

The Country Office agrees to provide additional training for UNICEF staff, third-party monitors and implementing partners involved in the cash transfer process and enhance monitoring controls to ensure that:

- only duly completed and adequately supported FACE forms are processed for payment;
- the implementation timeframe is adequately reflected in the FACE forms and activities are completed before grant expiry; and
- cash transfers and reimbursements are processed in a timely manner.

Staff Responsible: Operations Manager
Implementation Date: September 2023 (then ongoing)

7. Humanitarian cash transfers | Medium

Failure to adequately identify and assess the key risks and controls related to the humanitarian cash transfer programme meant that the Country Office was unable to obtain assurance that the cash transfers were being used for the purposes intended and thus meeting the needs of crisis-affected populations and unable to pursue any actions necessary to mitigate these risks.

As part of its humanitarian response, the Country Office implemented a cash transfer programme using the existing government social protection system to deliver cash directly to crisis-affected populations. In 2022, under this pilot social policy programme, cash transfers were made to 233,716 people affected by conflict, drought and flood. The audit evaluated the adequacy and effectiveness of the controls in place to ensure that bona fide households promptly received the correct amount of cash under this programme. It also aimed to assess whether there was an appropriate mechanism in place for the receipt and processing of beneficiaries' complaints in respect of their entitlements and for ensuring that beneficiaries were aware of the reporting channels available to them.

The Country Office transferred cash to beneficiaries through government implementing partners using the direct cash transfer modality. The audit team reviewed one cash transfer intervention related to the humanitarian cash transfer programme amounting to US$1,251,603 for 31,238 internally displaced persons (IDPs), equivalent to US$46.15 per IDP. OIAI found that the Country Office relied fully on the national system for transferring cash to selected beneficiaries. The government partner used a financial service provider to support the programme. This arrangement meant that the Country Office had limited visibility of the workflow or control of key processes to ensure that the intended beneficiaries received the full amount of cash assistance. As the Country Office did not have any contractual relationship with the financial service provider, it had no means by which to hold it to account.

The Country Office did not assess the risks related to the cash transfer process before selecting the payment modality and initiating the programme. For example, the Country Office did not consider how assurance would be obtained that only eligible persons were included in beneficiary lists based on defined criteria and reliable information; that late, duplicate or erroneous payments were identified and followed up; that beneficiary data was protected; and that grievances could be raised and resolved.

Instead, the Country Office contracted a local audit firm to conduct a HACT assurance audit using the standard terms of reference for HACT. The HACT audit report noted that a list of internally displaced persons and a lump sum bank advice were provided by the financial service provider as supporting documentation for the cash transfers. However, there was no proof of payment to beneficiaries and the terms of reference did not require the audit firm to validate the cash transferred to beneficiaries. The HACT audit report also noted that there were discrepancies between the beneficiary list maintained by the government partner and the Country Office's own beneficiary list, which suggested that there were weaknesses in beneficiary identification. However, the standard HACT assurance activities did not provide for validation of beneficiary data, for example, through triangulation with other sources. As a result of not adequately assessing the risks and controls related to the existing social and humanitarian cash transfer processes and considering alternative payment modalities, the Country Office was unable to obtain sufficient assurance that the cash transfer programme was achieving its intended goals and that money was used only for intended purposes.

AGREED ACTIONS:

The Country Office agrees to:

(i) Review the available cash transfer modalities and assess the adequacy of controls to mitigate significant risks related to humanitarian cash transfers, as a basis for selecting the most appropriate modality for future programmes;

(ii) Establish a mechanism to ensure that the list of intended beneficiaries is validated and develop mitigation measures related to cash disbursement risks.

Staff Responsible: Chief Social Policy
Implementation Date: (i) Sept 2023; (ii) and (iii) Sept 23 (then ongoing)

8. HACT assurance activities — Medium

Assurance activities were not fully used, thereby reducing the level of assurance that UNICEF resources were used only for their intended purpose and not taking full advantage of the opportunity to strengthen partners' risk management practices.

UNICEF offices are required to implement the Harmonized Approach to Cash Transfers (HACT), which requires systematic assessment of the level of risk of working with any partner, as a basis for determining the method of funding and assurance practices for that particular partner. The framework includes several tools, including micro-assessments (to establish the risk rating of a partner), programmatic visits (to check on progress with implementation of activities), spot-checks and scheduled or special audits (to obtain assurance that partners have used the cash transferred to them for its intended purpose). The audit team evaluated the adequacy of the Country Office's application of HACT assurance tools, to ensure transparent and efficient cash transfers to implementing partners and effective management of the associated fiduciary risks.

The Country Office developed an adequate, risk-based HACT assurance workplan that included audits, spot-checks and programmatic visits. It performed an analysis of the results of financial assurance activities conducted between 2020 and 2022, which led to refresher HACT training for service providers. During the period under audit review, 18 audits and 110 spot-checks were conducted. The audit team reviewed a sample of six audit reports and eight spot-check reports and noted the following.

Follow-up of assurance activity recommendations: UNICEF country offices should undertake micro-assessments for implementing partners that receive US$100,000 or more from UNICEF in a calendar year. A micro-assessment evaluates an implementing partner's financial and supplies management capacity, determines the partner's risk rating and recommends any necessary improvements to the partner's internal controls. The Ethiopia Country Office appropriately provided the audit firms engaged to perform financial audits with results of micro-assessments and spot-checks to ensure follow-up of recommendations during the audit engagement. However, in 4 of the 14 assurance reports reviewed by the audit team, the reports stated that micro-assessment recommendations had not been implemented. In the case of one partner, despite significant findings from spot-checks and audits conducted since 2018, the Country Office had not adjusted the partner's risk rating to reflect the identified control weaknesses. This reduced the Country Office's ability to determine the level of assurance activities required to manage the risks associated with transferring cash to this partner.

In five of the sampled assurance reports, the recommendations were not precise enough to ensure effective resolution of issues. For example, a recommendation to address a partner's failure to provide proof of payment stated the need to provide supporting documentation but with no specific timeframe, creating a risk that unauthentic documents may be produced post facto. Field office staff interviewed by the audit team explained that, despite ongoing technical support and regular reminders to follow up action points, they had not been able to follow up all action points because some were not well formulated.

The above observations indicated a need for further staff training to improve awareness of the requirements needed for enhanced oversight and to ensure that opportunities to improve the quality of the Country Office's HACT assurance activities are identified and addressed in a timely manner.

Also, the Country Office did not define the type of assurance activity required for various risks associated with transactions related to humanitarian cash transfers, supply and logistics management and construction. This reduced the Country Office's ability to assess and manage the risks related to those activities.

Programmatic visits: Programmatic visits are a key component of programme monitoring, providing assurance that results reported by implementing partners are accurate and evidence of progress towards achievement of planned results. They also identify implementation challenges, constraints and solutions. The Country Office conducted 576 planned programmatic visits during the audit period. The audit team reviewed a sample of 20 visit reports and noted that a standard format had been developed for collection of essential information. However, this format was not consistently utilized due to insufficient staff capacity and oversight of programme monitoring activities. For example, information related to beneficiary feedback and supplies was not recorded in the relevant sections of the programmatic visit document, including quantities of supplies received and distributed and the balance kept in the implementing partner warehouse. Also, when implementing partners noted missing or lost supplies, the information was not recorded and there was no mechanism to collect and monitor such information. There was a missed opportunity for the Country Office to obtain the intended breadth of assurance over programme implementation and to address any gaps or weaknesses in achieving planned results.

AGREED ACTIONS

The Country Office agrees to strengthen its assurance activities by ensuring that:

(i) There is a mechanism to update implementing partner risk ratings and adjust the scope of planned assurance activities as needed;

(ii) Staff capacity gaps in the performance and oversight of HACT assurance activities are identified and further training provided, as needed; this should include the formulation and implementation of recommendations from assurance activities;

(iii) Programmatic visit information related to beneficiary feedback and supply chain management is recorded, reviewed and progress with implementation of resulting recommendations is monitored to completion.

Staff Responsible: Operations Manager
Implementation Date: (i) and (ii) September 2023 (then ongoing); (iii) December 2023

9. Supply and logistics management — High

There were significant delays in delivering supplies to beneficiaries due to security restrictions in some regions. Also, the Country Office had not implemented mechanisms to verify that supplies were distributed to the intended beneficiaries in the right quantity and quality and to promptly *identify and address delays in delivering programme supplies and to mitigate against the loss or leakage of essential supplies.*

During the period from January 2022 to February 2023, the Country Office procured supplies worth US$155 million, of which 27 per cent were procured locally by the Country Office and the remaining 73 per cent by UNICEF's global Supply Division. The Country Office has three warehouses for emergency supplies in Jijiga, Gambella and Mekelle and two transit warehouses in Addis Ababa. As at 23 February 2023, the Country Office had inventory worth US$25.5 million, including US$2.4 million worth of emergency supplies. The audit assessed the adequacy and effectiveness of supply planning and local procurement, warehousing and distribution of supplies to beneficiaries, as well as supply end-user monitoring activities.

Supply planning and procurement: The Country Office developed a supply and logistics strategy to ensure the availability of essential supplies to beneficiaries at any given time. There was a comprehensive supply plan, which was regularly updated to reflect changing needs related to the drought responses. For nutritional supplies, as part of the strategy, the Country Office maintained appropriate 'safety' stock levels of essential products to mitigate the risk of stockouts when the items were most needed. Internal controls over the procurement of supplies by the Country Office were found to be in conformance with those prescribed by UNICEF and operating as designed.

Delivery of supplies to implementing partners: UNICEF offices are required to deliver lifesaving supplies for children and communities to partners and/or point-of-use in a timely manner. During the audit period, the Country Office dispatched supplies worth US$ 61.6 million from its warehouse to implementing partners. The audit team noted that US$ 25.6 million (40 per cent) of the supplies dispatched to partners were delayed by 45 days or more and US$1.7 million of supplies were delivered to partners more than 180 days after leaving the UNICEF warehouse. Such significant delays significantly increased the risk of expiry, loss or misappropriation of supplies. The Country Office explained that most of those delays were caused by security challenges in some of the implementation zones.

Management of expired supplies: The audit team's review of the inventory report showed that 40,572 boxes of expired surgical masks worth US$527,604 were still held in stock instead of being disposed of. In one of the two warehouses visited by OIAI, there were 37,200 boxes of expired masks worth US$483,754. These items were returned to the Country Office by the government partner in April 2022, as they were due to expire two months later. Eight months later in February 2023, the Supply section requested that the Programme section submit a request to the Property Survey Board to dispose of the masks. Failure to monitor and manage expiry dates and delays in requesting stock write-off and disposal can lead to inefficient use of warehouse space and resources. These weaknesses were a result of poor communication and coordination between the Programme and Supply sections and the absence of a systematic mechanism for monitoring and managing expiry dates.

Supply end-user monitoring: The audit team noted that neither the nutrition nor WASH programme included end-user monitoring to confirm whether supplies contributed by UNICEF have been received by the relevant beneficiaries. Although the end-user monitoring tool had modules on supply misuse and leakage, service delivery and beneficiary satisfaction, those modules were not utilized. By not fully using the end-user monitoring tool as designed, the Country Office did not maximize the opportunity to collect information on last-mile delivery of supplies

Management of the risk of diversion of ready-to-use-therapeutic food (RUTF): The Country Office distributes RUTF on a quarterly basis to more than 22,000 health facilities, to ensure that sufficient supplies are available for populations in need and to reduce distribution costs. An assessment of RUTF distribution from the UNICEF warehouse to the severely malnourished child enrolled in the Severe Acute Malnutrition programme was conducted in 2013[5]. The document analysed the risks at each level of the distribution process and highlighted the high risk of potential 'leakage' for re-sale on the private market at every stage of the supply chain. In 2022, the issues of RUTF misuse, leakage and loss were raised in various United Nations cluster meetings. In meetings with Country Office staff, partners and key donors, the audit team was informed that RUTF was being sold on the local market. OIAI noted in its review of available documentation that in September 2022 the Country Office recorded in its internal monitoring system the looting of 289 cartons of RUTF valued at $15,028 from three health facilities, following notification by the government partner. The Country Office requested a formal incident report from the Government and this report was shared with the donor concerned and with UNICEF Headquarters' Public Partnership Division. In another instance, 2,400 cartons of RUTF valued at US$ 112,281 were lost during transit from Addis Ababa to the Mekelle warehouse. This loss was not immediately recorded but the Country Office did make an insurance claim to recover the cost.

Following these incidents, in September 2022, the Country Office conducted a preliminary analysis to determine the source of the RUTF found on the local market. The analysis indicated that the supplies were produced locally and that 85 per cent were dispatched to the Somali region and the rest to the Oromia region. The analysis did not quantify the supplies concerned or identify the key risk and control points in the RUTF distribution process. It did, however, include several mitigation measures and an action plan, although without a timeline for implementation. OIAI was unable to find evidence that the adequacy of the mitigating actions or progress with implementation were reviewed by the Country Management Team or other governance committee. The audit team reviewed cluster meeting minutes and noted the suggestion that current mitigation measures, (for example, letters prohibiting the sale of nutrition supplies), may not be sufficient to adequately mitigate the risks of future leakage. The audit team noted various weaknesses in supply management, for example, failure to assess warehouse capacity and to dispatch supplies based on partner requests. This could lead to excess supplies in partner warehouses that may be vulnerable to theft and/or resale in local markets.

Since completion of the audit, in April 2023, evidence of systematic diversion of food aid in Ethiopia led to the U.S. government pausing its food aid to the country until changes to the distribution system are made. The United Nations Ethiopia Country Team has established a task force to deal with this issue holistically. RUTF supplies are exempt from this suspension of food aid. Nevertheless, UNICEF has confirmed its intention to review the Country Office's internal control and risk mitigation measures to address current and potential diversions and last-mile delivery of RUTF commodities and to determine any additional mitigation measures needed. Key donors and partners will be informed of progress with the review and any additional safeguards introduced to demonstrate that appropriate actions are being taken to address this issue.

AGREED ACTIONS

The Country Office agrees to:

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[5] UNICEF technical report on "Reducing RUTF leakage in Ethiopia, Ready-to-use-Therapeutic Food (RUTF) leakage and misuse survey of the CMAM programme supply chain in Ethiopia", July 2013.

(i) Strengthen staff capacity and coordination between Supply and Programme sections to ensure adequate monitoring of time-sensitive stock items and ensure that expired supplies are disposed of and accounted for in a timely manner;

(ii) Strengthen monitoring of last-mile delivery of supplies by ensuring that end-user monitoring forms are fully operationalized so that information related to programme supplies is centralized and monitored and issues acted upon;

(iii) Conduct a detailed, comprehensive review of the nutrition (RUTF) supply chain process, including assessment of key risks and controls, as a basis for determining additional risk mitigation measures; establish an implementation plan with clear accountabilities and timelines, and a mechanism to ensure effective monitoring and reporting of progress with implementation;

(iv) Ensure that any future RUTF leakages or losses are quantified, that fraud risk reporting requirements are respected and that the associated risks are included in the Country Office risk register to ensure visibility and ongoing tracking and monitoring.

Staff Responsible: Chief Supply (Lead) with Chief Nutrition, Chief PMU, Operations Manager, Risk and Compliance Manager
Implementation Date: (i) monthly/quarterly reviews (ongoing);
(ii) March 2024; (iii and iv) June 2024 (then ongoing)

10. Construction management — Medium

The Country Office did not conduct sufficient risk assessment or monitoring of construction projects, to ensure that construction work was completed to the required standards and represented effective use of resources in support of the Country Office's programme goals.

During the period under review, the Country Office spent approximately US$13.6 million (9 per cent of total procurement expenditure) on construction activities. The audit aimed to assess the adequacy and effectiveness of the Country Office's planning, management and oversight of construction activities, as well as the adequacy of capacity and technical expertise, to ensure effective use of funds in support of programmatic objectives.

Justification for construction activities: Due to the operating context, initiation of construction projects was largely based on needs identified by the Country Office in cooperation with the relevant government authorities. The business case was generally established as part of the programme document development process under the HACT framework. Most construction and rehabilitation work conducted during the period under audit was in humanitarian settings, related, for example, to latrines, hand-washing facilities and health facilities. The Country Office had an in-house team with appropriate technical expertise and used independent consultants and engineering companies to manage and oversee construction projects. OIAI did not find anything that would indicate that the Country Office lacked the capacity to engage in construction activities.

The audit team reviewed five construction projects implemented through CSO partners. In one case, the Country Office signed a humanitarian programme document with the CSO, which included expansion of warehousing capacity for anticipated post-election conflict in the Somali region. The audit team visited the CSO and observed that the warehouse was not fully utilized and contained UNICEF supplies unrelated to its intended purpose (i.e., education kits and COVID-

19 related supplies). OIAI was informed by the CSO that the Country Office was planning to construct another warehouse on the CSO's property. However, there was no documentary evidence to support the need for an additional warehouse on the partner's property and at the time of audit, the humanitarian programme document timeframe had ended and there was no extension.

UNICEF's guidance on construction activities requires a risk assessment to be conducted as part of the needs assessment for each construction project. Assessing and periodically reviewing the risks related to individual construction activities provides a basis for determining the appropriate level of management and oversight and for monitoring and reporting progress. OIAI acknowledges that in the L3 context, the urgent need for WASH and health facilities may outweigh the requirement for a fully documented risk assessment and business case. Nevertheless, it is important to ensure that there is a mechanism that provides management with sufficient visibility of all proposed and ongoing construction works, to ensure that they are aligned with programmatic needs and the Country Office's risk appetite.

Selection of suppliers and implementation modalities: UNICEF's global Supply Division issued guidance to country offices on whether to implement construction activities by 'direct' management of private-sector contractors, CSOs or other United Nations organizations or 'indirect' implementation through partnerships with government, CSOs or United Nations organizations. The 'direct' modality was recommended for higher value (more than US$100,000), more complex projects requiring greater capacity and expertise. Most of the Ethiopia Country Office construction activities were implemented 'indirectly' using government or CSO partners. This implementation modality is better suited to the country context and is aligned with the L3 SSOP, which did not specify any maximum amount that can be disbursed to CSOs in a humanitarian context.

The audit team reviewed the supplier selection process for three contracts and noted that the bids were not advertised and there was no evidence to support the selection of a particular vendor. Furthermore, OIAI noted that the Country Office transferred more than US$1 million (and in some cases more than US$2 million) to CSOs without assessing the technical capacities of the partners. This is not aligned with the UNICEF guidelines, which require a capacity assessment of partners before awarding a construction contract. The Country Office explained that these exceptions were due to the application of the L3 emergency procedures, which allow a waiver of any process to accelerate speed of service provision. The advertisement could not take place due to limited internet connectivity in the region during the selection process. In these particular cases, a risk-based decision not to perform a capacity assessment before transfer of funds was approved by the Country Management Team. While there is no formal requirement for such decisions to be minuted in emergency situations, OIAI recommends that even in L3 situations, key decisions and actions be recorded, even if post facto, to ensure transparency and allow sufficient 'audit trail'. This is important for the transfer of knowledge in the event of a change in management and for provision of evidence in the event of any audit or allegation of fraud or misconduct.

As noted in Observation 8 on HACT assurance activities, implementing partner risk ratings were not adjusted. The standard HACT assurance activities were not tailored to specific construction-related risks, and as such they did not include assessment of vendors' technical capacities.

Management of construction projects: Construction activities carried out through government implementing partners involved the use of the HACT framework, which included advance payments (direct cash transfers) to the government partners which then selected and paid the selected contractors directly. The approach transfers the risk of default by the contractor to the government partner which is legally bound as the contracting party. It also requires that the Country Office undertake effective activities to obtain adequate assurance over the controls implemented by the government partners in respect of procurement and contract management. The Country Office developed a standard operating procedure (SOP) that correctly required that the government receives bank guarantees before advances are made to contractors, to minimize UNICEF's financial exposure. However, this requirement was not always followed. The audit team reviewed a sample of cash transfers amounting to US$2.1million to two implementing partners for WASH-related construction and noted that the Country Office disbursed funds directly to the government partners which then made advance payments to the contractor before receipt of the bank guarantee. OIAI also noted that the Country Office liquidated direct cash transfers to government partners against the bank guarantee and not on the basis of actual work completed and expenditure incurred. Therefore, the Country Office lacked the assurance it requires under the HACT framework that its funded construction activities are completed as agreed with government partners.

During the audit, OIAI was unable to obtain evidence to support subsequent payment requests made by implementing partners. For example, construction progress reports to certify completion of work were not available in VISION. The audit also was constrained by the absence of other critical business documents (e.g., tendering documents, final partnership reviews, vendor contracts) in the relevant corporate systems. While the Country Office did provide supporting documentation following completion of the audit fieldwork, it is important to ensure that the corporate requirement to upload essential data, records and documents to UNICEF systems (eTools, eCRC, Sharepoint etc.) on a timely basis is respected, for the purpose of knowledge management and to mitigate against the risk of disruption in the event of a disaster. The Country Office explained that it had started to upload key documents to the corporate systems as of September 2022 and that training for Supply section staff was planned in Q2 2023 to enhance their capacity to use the corporate systems as required.

Monitoring of construction activities: With respect to construction works implemented through the direct modality, there was a schedule of completed and ongoing construction activities. The audit team reviewed a sample of contracts for the purchase of materials for the rehabilitation of solar plants and maintenance of boreholes and found evidence that materials had been pre-inspected by the WASH team before they were received at the UNICEF warehouses or construction sites. However, there was no equivalent list of construction work being implemented indirectly through implementing partners. It was therefore not clear how the Country Office was able to identify and map all construction projects conducted using cash transfers. This limited visibility reduced the Country Office's ability to monitor all construction sites.

The Country Office obtained assurance as to the management of risk related to construction activities through spot checks, programmatic visits, and scheduled audits, as part of the HACT framework. Observations related to the quality of programmatic visits are reported in Observation 8 on HACT assurance activities.

AGREED ACTIONS

The Country Office agrees to strengthen its management of construction activities by:

(i) Establishing a mechanism/dashboard to ensure adequate visibility of all construction projects (direct and indirect), as a basis for ensuring appropriate oversight and monitoring at the national and field office level; this should include risk assessments, accountabilities and the status of mitigating actions;

(ii) Ensuring that all construction work performed through CSOs is based on a valid partnership agreement and that the partnership review document includes a robust business case for all construction work, linked to programmatic goals;
(iii) Reviewing, and where necessary revising, risk ratings of implementing partners that carried out construction projects without being assessed to determine the scope of planned assurance activities;
(iv) Ensuring that a bank guarantee is received before requesting advance payment to construction contractors and that direct cash transfers are liquidated based on evidence of the percentage completion of work.

Staff Responsible: Chief Supply (Lead); Operations Manager
Implementation Date: (i) and (ii) September 2023; (iii) September 2023 (then ongoing); December 2023

11. Management of service contracts — Medium

The Country Office's did not review the contractual arrangements and justification for high-value HR-related services and car rentals. There were also weaknesses in the payment process and ongoing monitoring of service contracts. This resulted in missed opportunities to maximize the cost-effective use of UNICEF funds and to mitigate against the risk of misuse of resources.

The Country Office issued contracts for services amounting to approximately US$27.2 million in the period under review. The audit team reviewed a sample of high value contracts, which consisted of HR-related services and car rentals that amounted to US$7 million and US$4.7 million respectively. The audit team assessed the adequacy and effectiveness of controls to ensure that the contracted services were aligned with programmatic needs, of the appropriate quality and quantity, delivered on time and represented efficient and effective use of resources. The audit did not include a review of the management of other categories of locally procured services.

The service providers reviewed had signed long term agreements (LTAs) with UNICEF. OIAI noted that the LTAs were awarded following a competitive procurement process to ensure transparency and value for money and that the Contracts Review Committee scrutinized the contracts as required. The terms of the LTAs allowed the Country Office to audit the contractual relationship and transactions with the selected vendors as it deemed necessary. However, there was no evidence of any such audit to date.

OIAI noted the following areas requiring the attention of Country Office management:

Car rental services and fleet management: At the time of the audit, the Country Office UNICEF had 115 vehicles for staff use as well as LTAs for car rental services. In addition to the cost of running UNICEF-owned vehicles, the Country Office spent US$5.2 million from January 2022 to February 2023 on car rentals. The Country Office indicated that the rental cars were used to transport non-UNICEF staff deployed in various field locations. OIAI noted that car rental services were not part of the country programme workplans. No cost-benefit analysis had been conducted to compare the use of the UNICEF fleet and the rental service, nor had a review of transportation needs for supplementary staffing structures been performed as part of the programme budget review. This may be because UNICEF’s budget guidelines did not address the use of supplementary and flexible structures to complement UNICEF country office presence, which is an important component of the workforce structure (as noted in Observation 1 on workforce structure and management).

Payment process: The audit team reviewed 14 invoices related to HR and car rental services provided and noted that 12 invoices were not adequately supported by evidence of services performed. This increases the risk of paying for services not provided. Missing supporting documents included consultant time sheets, reports from UNICEF or government partners and evidence of who used the car rentals and the duration of the rental periods.

Monitoring the use of services: As reported in Observation 1, the Country Office did not have adequate oversight of the services provided by consultants engaged by the HR service provider and the contracting process lacked technical input from qualified HR staff. Similarly, contractual arrangements for car rental services were managed by the Supply section without technical input from the Administration section, which reduced the opportunity to receive relevant input on technical matters.

AGREED ACTIONS

The Country Office agrees to:

(i) Conduct a cost-benefit analysis comparing the use of the UNICEF fleet and car rentals. This analysis should contribute to an assessment of the entire office transportation needs, taking into account the need for UNICEF presence in hard-to-reach locations;
(ii) Clarify staff responsibilities and accountabilities for certification and approval of invoices by defining the minimum documents that should support and confirm the quality and quantity of services provided and its cost; and hold consultants/vendor accountable for any unsatisfactory performance;
(iii) Define performance measures for the HR and car rental service providers, using technical input from the HR/Administration sections, as a basis for monitoring vendor performance and addressing any issues.

Staff Responsible: Operations Manager (Lead) with Chief Supply and Chief HR
Implementation Date: (i) December 2023; (ii) and (iii) December 2023 (then ongoing)

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 as a whole. Individual observations are rated as follows:

Low	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.
Medium	The observation relates to a weakness or deficiency in the assessed governance, risk management or control processes that requires resolution within a reasonable period of time to avoid adverse consequences for the audited entity, area, activity or process.
High	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 as a whole.

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:

Satisfactory	The assessed governance, risk management or control processes were adequate and functioning well.
Partially Satisfactory, Improvement Needed	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.
Partially Satisfactory, Major Improvement Needed	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.
Unsatisfactory	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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