Office of Internal Audit and Investigations

Report on the Internal Audit of the

SOMALIA COUNTRY OFFICE

DECEMBER 2023

Report 2023/25

CONTENTS

EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the Somalia Country Office, covering the period from 1 January 2022 to 31 July 2023. The audit was conducted from 9 to 31 July 2023 in conformance with the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. The overarching objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over a selection of significant risk areas of the country office, including programme work planning, cash transfers to implementing partners, procurement and supplies, and fraud risk management. The descriptions of the specific risks evaluated are provided in the Audit Objectives, Scope and Approach section of this report.

The Somalia Country Office operates in a protracted and complex setting with an estimated 8.25 million people, nearly half of Somalia's population, requiring humanitarian assistance.[1] In September 2022, a Level 3 (L3) emergency was announced in view of the severe drought in the eastern and southern parts of the country. L3 is the highest level of the United Nations' three-tiered classification system for humanitarian emergencies, signifying a large-scale humanitarian crisis that requires a coordinated response. During the period under review, the Somalia Country Office spent approximately US$166.7 million (47 per cent of its overall spending) in cash transfers to partners and US$62.9 million (18 per cent) on programme supplies. There were also a number of risks emanating from the ongoing political and security instability in the country. The audit took these factors into account in evaluating the country office's governance, risk management and control processes.

Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management and 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.

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

Summary of Observations and Agreed Actions

OIAI noted several areas where UNICEF Somalia's controls were adequate and functioned well, most notably:

Avoiding supply pipeline breaks: The Somalia Country Office was proactive in forecasting, placement of orders, monitoring its ready-to-use therapeutic foods (RUTF) pipeline to avoid any possible pipeline breaks and working closely with the regional office and Supply Division in ensuring the country office was prioritized globally for the L3 nutrition emergency. The country office developed guidelines for RUTF pipeline management for all nutrition cluster partners, which enhanced partner accountability and helped the office keep donors informed about the RUTF pipeline through regular updates on the status of RUTF stocks.

Inventory prepositioning: During the period from January 2022 to July 2023, UNICEF Somalia spent US$173.6 million on procurement of supplies and services. The Somalia Country Office

[1] 2023 Humanitarian Response Plan

increased its internal capacity to manage emergency supplies by prepositioning supplies closer to the affected populations and seeking to improve visibility and traceability by implementing mWIMs, UNICEFs mobile warehouse and inventory management system.

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

- **Capacity injections:** A donor-dependent environment and limited government contributions to essential social services have focused the country office's activities on non-traditional development support termed 'capacity injections.' These consist of incentives and salaries paid to critical government personnel. At the time of the audit, the data had not been consolidated and therefore had not captured the exact magnitude of capacity injections supported by the office, nor were there indicators for measuring progress towards planned results, for these system-strengthening activities. This lack of consolidated data and performance indicators has reduced the office's ability to identify challenges in the activities' implementation and measure their impact. Further, the lack of phase-down mechanisms inhibits the identification of opportunities for system-strengthening activities that are more forward-looking and can effect sustained change.

- **Cash transfer assurance activities:** The assurance activities conducted were not tailored to address the particular risks emanating from using cash transfers to pay salaries and stipends to government personnel and frontline workers. Spot checks only confirmed that a payment had been made to an individual and that the individual had received the payment. There was nothing regarding the existence of the bona fide personnel or the accuracy of the amount paid to them. This occurred because the office implemented scheduled assurance activities with standard terms of reference instead of conducting assurance activities that could focus on the particular risks of the capacity injection mechanism.

- **Supplies and the last mile:** Supplies were distributed to partners without a comprehensive partner warehouse and logistics capacity assessment having been performed. Furthermore, there were some weaknesses in the distribution of supplies to implementing partners, and there was limited visibility on the supplies once they had been handed over to the partner. These limitations in the last mile were compounded by the lack of systematic supply end user monitoring. This elevated the risk that the office might not be able to identify weaknesses in partners' supply management and/or supply diversion/leakages on a timely basis.

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 Agreed Action**	**Rating**
Risk management	**Fraud risk management (Observation 10):** Ensure that significant contextual and programme-specific fraud risks are adequately assessed, and appropriate response strategies are implemented. Then use the fraud risk assessment to identify key red flags and fraud indicators, ensure regular monitoring of potential fraud risks, and implement update to applicable controls.	**Medium**

Control processes	**Capacity injections (Observation 2):** Maintain the office-wide analysis of capacity injections, develop measures and quantitative and qualitative indicators to monitor and report on progress toward planned results for all programmes using capacity injections. In coordination with other United Nations agencies, use the collated data to inform and define an exit strategy.	**High**
	Cash transfers and assurance activities (Observation 3): Ensure that there is clarity and standardization across the office on the basic criteria that should be used in deciding what payment modality to use for capacity injections, and that the choice of type and coverage of assurance activities takes into consideration the particular risks of such activities. Establish a plan of action for long-outstanding ineligible expenses.	**High**
	Supply distribution and the last mile (Observation 4): Ensure that partner warehouse and logistic capacity assessments are completed and based on such assessment, include appropriate risk mitigation measuresare in the partnership programme documents. Aligned distribution plan with programme documents increase visibility over movement of supplies held by partners. Implement a comprehensive plan to ensure adequate end user monitoring that considers the contextual risks in determining the number and type of post-distribution monitoring activities that should take place.	**Medium**
	Accountability to affected populations (AAP) (Observation 9): Ensure that AAP issues are regularly reported to and addressed by the Country Management Team and operationalize the AAP work plan by including its outputs and activities in programmes. Close the feedback loop by establishing mechanisms to ensure feedback being collected is analysed and acted upon.	**Medium**

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 OIAI is to provide an independent assessment of those governance, risk management and control processes.

CONTEXT

Somalia is a low-income country with a population of approximately 17.1 million, 46 per cent of whom are children under the age of 15. Around 2.6 million Somalis are internally displaced and an estimated 1 million are refugees in nearby countries.[2] Population displacement remains widespread, with millions of people living in protracted displacement and less than conducive conditions. More than 3.8 million people are internally displaced in Somalia due to the impact of climate change, conflict and insecurity, and other factors. Since the beginning of the year, nearly 1.5 million Somalis have fled their homes for protection and assistance.[3]

Poverty particularly affects rural households and has been further exacerbated by the impact of five consecutive seasons of below-average rainfall, which had a detrimental effect on agricultural and livestock output. This has resulted in a significant increase in food insecurity among rural populations.[4] Humanitarian needs continue to grow disproportionately for marginalized and vulnerable groups owing to various risk factors, including prolonged drought, conflict, high food and water prices and displacement. The severe drought, hunger, disease and violence have merged to bring Somalia to the brink of famine, with an estimated 8.25 million people requiring humanitarian assistance.

UNICEF Somalia's 2022–2025 country programme has a total budget of US$466.8 million. It covers six programmatic areas: health; nutrition; water, sanitation and hygiene (WASH); education; protective environment; and social policy. In September 2022, the United Nations' Inter-Agency Standing Committee activated system-wide scale-up for Somalia. Based on this, UNICEF activated its L3 corporate emergency scale-up procedures to support the drought crisis, and it did so again in March 2023 for the polio and cholera responses. The country office launched Humanitarian Action for Children appeals in both 2022 (for US$222.3 million) and 2023 (US$272.3 million).

Figure 1 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.

[2] 2023 Humanitarian Response Plan
[3] United Nations High Commissioner for Refugees Protection and Return Monitoring Network
[4] 2023 Humanitarian Response Plan

Figure 1: Programme spending by outcome, 2022–2023

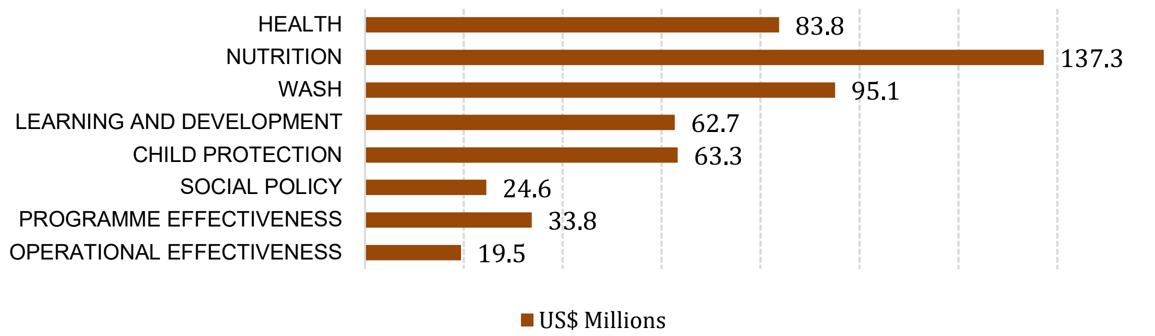
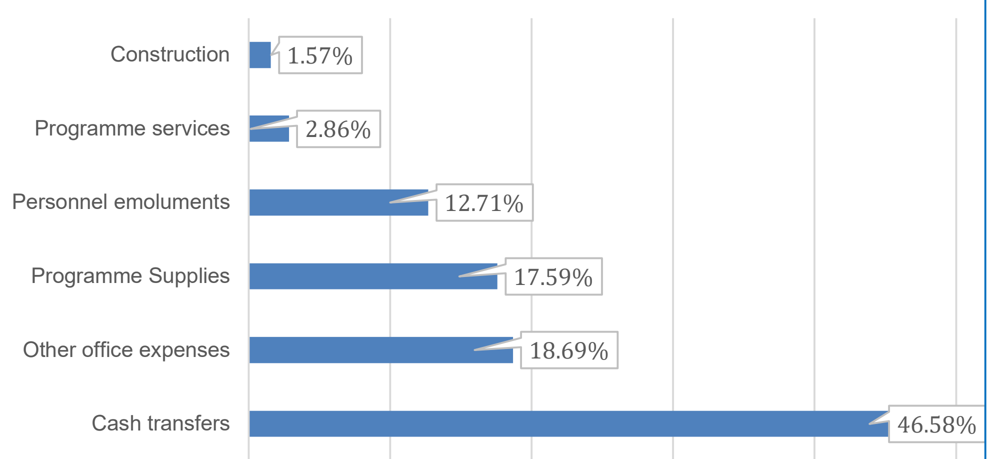


Figure 2 shows that the most significant categories of programme-related expenditure during the audited period were cash transferred to government partners and civil society organizations (CSOs) for programme implementation (US$166.7 million) and supply assistance (US$62.9 million).

Figure 2: Total expenses, January 2022 to June 2023



The Somalia Country Office is based in Mogadishu, with five field offices in Hargeisa (Somaliland; Northwest), Garowe (Puntland State; Northeast), Mogadishu (Central South), Baidoa (Southwest State) and Dolow (Jubaland State), and an outpost in Nairobi, Kenya. At the time of the audit, the country office had a total workforce of 383, including temporary posts, made up of 115 international professionals, 130 national officers and 138 general service posts. As of 30 June 2023, there were 75 vacant posts. Fifty-three per cent of staff is based in Mogadishu.

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 Somalia Country Office.

The audit scope included key areas, set out in the following table, that were selected during the audit planning process based on an assessment of inherent risks.[5] The table below briefly describes the inherent risks in relation to the specific areas covered in the audit.

RISK AREA	KEY INHERENT RISKS EVALUATED DURING THE AUDIT
Office structure and staff management	The country office is based in Mogadishu and has field offices in Mogadishu, Hargeisa, Garowe, Baidoa and Dolow that are supported by the UNICEF Somalia Support Centre in Nairobi. Most of the staff (90 per cent) is based in Mogadishu, Hargeisa, Garowe and Nairobi. The country office may not be appropriately structured to ensure that the right skills and capacities are available in the right locations to support effective programme delivery and emergency response.
Fraud risk management	There are a number of ineligible expenses arising from the cash transferred to partners. The underlying causes for these are not always clearly identified. This suggests that fraud risk may not be adequately assessed and managed, resulting in loss of UNICEF resources (cash and supplies).
Prevention of sexual exploitation and abuse (PSEA)	Security concerns and constrained access to populations in need mean that the office relies on partners and third parties for implementation on the ground. Measures may not be adequate to mitigate the risk of beneficiaries, partners and staff being exposed to sexual exploitation and abuse, and of incidents of sexual exploitation and abuse not being reported. In addition, inadequate management of PSEA may expose the country office to reputational or legal risks.
Programme results framework and work plan	Ongoing security instability and conflict, and the vulnerability of Somalia to natural disasters, compounded by limited partnerships, pose a challenge for programme implementation. In addition, short-term emergency funding may reduce the country office's ability to build on its dual mandate for development and humanitarian action, which may result in the non-achievement of sustainable results for children.
Partnership management	During the period from 1 January 2022 to 25 June 2023, there were 159 implementing partners, of which 88 (55 per cent) were CSOs. In view of its multiple small partnerships, the country office may not be able to adequately leverage partnerships to design and implement the necessary programmes. Furthermore, CSOs may not have the necessary capacity, experience and comparative advantage to contribute to results for children.
Cash transfers to implementing partners	During the audit period, the country office disbursed US$167 million in cash to 159 implementing partners. Limited and poor partner capacity and ineffective key controls over cash transfers create an increased risk of inefficiencies, fraud, and misuse of UNICEF funds.

[5] 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.

Harmonized Approach to Cash Transfers (HACT) assurance activities	Assurance activities (spot checks, audits and programmatic visits) that are undertaken as compliance activities and are not risk-based will not focus on the significant risks and therefore provide insufficient assurance that cash transfers made to implementing partners were used for their intended purposes.
Supply chain management	From January 2022 to June 2023, the country office procured about US$63 million in supplies. An effective and efficient supply chain is necessary to ensure the timely delivery of essential supplies to the most vulnerable. Limited logistical infrastructure and restricted access in some areas create weaknesses in the supply chain, which if not managed or tracked may result in untimely delivery, wastage of essential supplies and aid diversion.
Accountability to affected populations	Inadequately incorporating AAP principles in humanitarian and development programming may prevent affected children and their families from participating in decisions that affect their lives.

The audit was conducted through a remote preparatory interview with country office management and the regional office and an on-site visit from 9 to 31 July 2023 in accordance with the Code of Ethics and the 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 July 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. Capacity injections — High

A donor-dependent environment and limited government contributions to essential social services have focused the office's activities on non-traditional development support termed 'capacity injection', which consists of incentives and salaries paid to government personnel. There was no consolidated data, however, that captured the magnitude of capacity injections supported by the office, nor were there indicators for measuring progress on the system-strengthening activities. This has reduced the office's ability to identify challenges in the implementation of capacity injection and/or measure its impact. Further, the lack of phase-down mechanisms inhibits the identification of opportunities for system-strengthening activities that are more forward-looking and can effect sustained change.

One of the 2021–2025 country programme priorities is to strengthen the capacity of the government to deliver quality social services through institutional capacity development. UNICEF Somalia also launched humanitarian appeals in 2022 and 2023, which meant that most of the funding received during the audit period was for short-term humanitarian emergency response. The audit assessed mechanisms in place to ensure that programmatic activities are adequately planned, streamlined and monitored to achieve the desired sustainable results for children.

Sustainability of interventions: The work plans and programme documents signed with government and CSOs, respectively, included system-strengthening and capacity-building activities aimed at facilitating sustained change and strengthening national, sub-national and local systems. The office stated that as Somalia has been without a recognized state for over two decades, traditional development strategies could not always be applied. Therefore, under system-strengthening outputs, the Somalia Country Office focused, in many instances, on paying salaries and top-ups termed 'capacity injection' to government personnel assigned to support the implementation of UNICEF-supported programmes. The capacity injection activities, however, included payments to personnel that could not be clearly linked to the planned results. For example, cash transfer payments entitled "supporting service delivery through staff salaries" included not only doctors, nurses, teachers but also guards and cleaners. The office informed the audit team that the capacity injections had to include support staff salaries, equipment and supplies to ensure the facilities were fully functional.

Nevertheless, in this regard, at the time of the audit and based on the information provided, 35 per cent of the funds available to the office were short-term, to be utilized within a year, and the majority of the longer-term funds were earmarked for specific programmes such as nutrition and malaria. Therefore, the capacity-strengthening strategies were dependent on short-term grants. However, the work plans and other documents did not clearly outline mechanisms or phase-out strategies, which would build government ownership and capacity for these activities. Although the office acknowledged a potential for increased longer-term resilience funds that would provide an opportunity for sustainable capacity building, the audit team is of the view that failure to proactively identify activities and mechanisms that enable the office to phase out of such short-term strategies could result in lost opportunities to contribute to integrated, sustained change.

Results management and monitoring: Offices systematically use monitoring data to improve programme effectiveness by reflecting on contributions to systemic changes and quality of programme coverage. The audit found that although capacity injection activities were reflected in the country office's annual work plans and programme documents, there were no appropriate performance indicators in place to manage and monitor such activities and the progress towards the Office's planned outputs and outcomes. Furthermore, there were no indicators developed to monitor the actual performance of government personnel including frontliner workers, in terms of service quality, as this was not required to be looked at. The audit also found that except for one sector, the capacity injection outputs and the progress on them were not systematically reported on in the office's annual review.

United Nations coordination: The capacity injection approach was being carried out by multiple United Nations agencies in Somalia, to which UNICEF Somalia was a significant contributor. At the time of the audit, a United Nations-wide standard protocol on capacity injection was being developed to enforce harmonization, provide oversight and avoid double dipping. In addition, the United Nations Country Team had already developed a capacity injection reporting tool (CIRT) in order to enhance transparency and strengthen information sharing on the mechanism. The audit noted discrepancies between the UNICEF data reported in the CIRT and the information recorded in various internal documents. Because the office had not yet consolidated and analysed this information, the cause of discrepancies was unknown. Although the country office stated that the scaling up of operations for emergencies could have created the discrepancies, the lack of a comprehensive assessment of the total salary and top-up payments made meant that the office was unable to confirm the totality of capacity injections and inform any potential actions for more sustainable interventions. The office informed the audit team that a comprehensive assessment of incentives that would help define a phase-out strategy was recently completed and that would provide a clearer picture of the support provided to the government.

AGREED ACTION 1

The country office agrees to strengthen its results framework by:

(i) Maintaining the office-wide analysis of capacity injections and developing measures and quantitative and qualitative indicators to monitor and report on progress towards planned results for all programmes using capacity injections.

(ii) Conduct regular reconciliations of the internal data collected with information included in the CIRT and ensuring that discrepancies are analysed and corrected.

(iii) In coordination with other United Nations agencies in Somalia, ensuring the reconciled comprehensive data on capacity injections are used to inform and contribute to a transition strategy for programmes utilising capacity injections.

Staff Responsible: Deputy Representative Programme

Implementation Date: 30 September 2024

2. Cash transfers and assurance activities — High

The assurance activities conducted were not tailored to address the risks emanating from cash transfers used to pay salaries and stipends to government personnel and frontline workers. The spot checks only confirmed that a payment had been made to an individual and that the individual had received the payment. There was no confirmation of the existence of the personnel, or the accuracy of the amount paid to them. This occurred because the office implemented scheduled *assurance activities with standard terms of reference instead of conducting assurance activities that could focus on the particular risks of the capacity injection mechanism.*

Between January 2022 and July 2023, the office transferred US$166 million to government and CSO partners, with approximately US$132 million transferred through direct cash transfers, US$22 million through reimbursement and US$12 million through direct payment. A review of a sample of Funding Authorization Certificate of Expenditure forms for disbursements and liquidations noted the following:

Cash transfers to pay salaries and stipends: The office was paying incentives and salaries to government employees in all programmes. Related disbursements were made to the government and CSOs using either direct cash transfers or direct payments. The rationale behind which payment modality was used and its linkage to the partners' capacity assessments was not always clear or documented. There should be clarity on why the different payment modalities are used and how this decision links to partners' capacity rating or current risk rating, as this information should determine the type and frequency of assurance activities the country office should undertake.

The office had developed an incentive guideline that provides standard rates for payments to government employees. The audit noted an incentive payment, related to drought emergency activities and amounting to US$626,076, on which the rates and category of staff paid were different from those stated in the standard rate guideline. The office explained that different rates were introduced as part of the humanitarian response planning process. This resulted in different rates being paid during the same period. The audit team was not provided with evidence of any checks to ensure only designated government personnel received the adjusted incentive.

Assurance activities: The office had prepared a HACT assurance plan for the period under review. However, the audit noted that the office implemented scheduled assurance activities with standard terms of reference instead of conducting assurance activities that could focus on the particular risks of the capacity injection mechanism. Therefore, the only checks in place were in the spot check, as the terms of reference of the spot check required the audit firm to confirm the individual received the payment. There was thus no confirmation of the existence of the personnel, or the accuracy of the amount paid to them. The country office clarified that the spot check for teacher incentives primarily constituted a financial review, and the existence of teachers was confirmed through data triangulation. There was no evidence, however, of the data triangulation performed for the audit sample selected.

The audit also noted that the office had limited financial assurance coverage for sampled partners. In five out of nine instances reviewed, the assurance activity conducted covered only 10 per cent of the amount spent and reported. That 10 per cent related to a particular donor's requirement for mandatory HACT audits. Lack of risk-based assurance activities could result in inadequate assurance on cash transfers and/or insufficient and untimely information on irregularities or diversions.

Ineligible expenses: The audit reviewed the mechanism in place to follow up and act on ineligible expenses with implementing partners and noted that as of 24 July 2023, the office had outstanding ineligible expenses totalling US$1.8 million in eTools, of which the office stated that US$1.5 million related to financial findings prior to 2021. The office stated it did not record required follow-up information in eTools as it was using a financial findings module to take corrective action. Nevertheless, there were delays in taking action on ineligible expenses that included amounts that had been opened since 2018, casting doubt on the robustness of the follow-up of financial findings.

AGREED ACTION 2

The country office agrees to strengthen the risk management of its cash transfers and assurance activities by taking steps to:

(i) Ensure that there is clarity and standardization across the office on the basic criteria that should be used in deciding what payment modality to use for capacity injections and what checks should be instituted to ensure the correct rates are paid.

(ii) Ensure that choice of the type and coverage of assurance activities takes into consideration the particular risks of that programme activity and are appropriately amended to include those specific risks.

(iii) Establish a plan of action with assigned responsibilities and timelines on ineligible expenses and intensifying actions to obtain refunds for and/or write off long-outstanding expenses.

Staff Responsible: Deputy Representative Operations; and Programme Specialist HACT
Implementation Date: 30 June 2024

3. Supply distribution and the last mile — Medium

Supplies were distributed to some partners without a logistics capacity assessment having been performed. Furthermore, there were weaknesses in the distribution of supplies to implementing partners, and limited visibility on the supplies once they had been handed over to the partner. These weaknesses in the last mile were compounded by the lack of systematic supply end user monitoring. This elevated the risk that the office might not be able to identify weaknesses in partners' supply management and/or supply diversion/leakages on a timely basis.

Between January 2022 and June 2023, the country office received supplies worth US$67.5 million in its warehouses and released US$76 million in supplies to its partners. The audit reviewed processes and procedures in the supply chain management to ensure the timely delivery of essential supplies to intended beneficiaries and to prevent risk of stock-out, loss and diversion.

Distribution of supplies: The audit also noted that the country office sent supplies without performing an assessment of partners' warehouse management and logistics capacity, despite the substantial volumes of supplies included in the programme documents. The programme documents focused on risks related to cash but excluded the risks related to supplies and logistics. Additionally, the office did not define any supply assurance and monitoring mechanisms in the programme documents to enhance visibility over the movement of the supplies. The country office stated that, although not reflected in programme documents, it has initiated assessments of partners based on an agreed prioritization.

Inventory release orders should be supported by a formal supply request from the partner. Partner representatives who spoke with the audit team, however, confirmed that there were instances in which UNICEF provided supplies that had not been requested. This was also noted multiple times in the audit sample. In one example, the office released supplies to a CSO that were not supported by any of the partner's signed programme documents. Further, there was no distribution plan for those supplies, nor was any verification performed to ensure that the correct institutions received the goods. The office acknowledged that such gaps were caused by a number of factors, including a need to push supplies to partners based on informal agreements with the partners based on their caseloads and/or the need and speed of the emergency response. Without warehouse capacity assessments or a clear supply distribution plan with risk mitigation measures, there was a risk that the office might not be able to identify weaknesses in partners' supply management and/or supply diversion/leakages on a timely basis.

Warehouse services: The audit noted that the office had a signed programme document with a CSO for the management of nine regional supply hubs, warehouses, placed in flood- and cholera-prone areas in Central South, closest to the communities. The results formulation in the programme document did not identify the risks and mitigation measures related to warehouse management or how this activity was to be monitored, and the programme documents were completed without specific input from the supply unit. The audit team is of the view that the wrong contract was utilized to manage the service and its related risks. UNICEF programme guidance states that institutional contracts should be used when a CSO is selected to provide services or procure goods based on the principle of best value for money. The institutional contract also enables an office to properly manage the risks and quality of the service contracted.

End user monitoring: Even though the country office had developed a standard operating procedure for supply end user monitoring, it was not implemented systematically. The office noted that in 2023, some end user monitoring visits had been performed, and a third-party monitor had also been used. There was, however, no overview of or plan for the breadth and depth of end user monitoring needed given the contextual risks. Therefore, there was a lack of visibility on the utilization and propriety of the supplies provided, leading to inefficiencies (unused or underutilized supplies) and a lack of timely information on potential irregularities in the supply chain.

AGREED ACTION 3

The country office agrees to continue to strengthen its supply risk management by ensuring that:

(i) The appropriate contracting document and related risk management tools are used for supply and logistics services. Where relevant, partner logistic capacity assessments should be performed and based on the assessment, relevant risk mitigation measures embedded in the partnership programme document for consideration by the partnership review committee.

(ii) Distribution plans are aligned to the programme documents and there are adequate means to increase visibility over the movement of supplies held by partners and review any significant discrepancies.

(iii) There is a comprehensive plan for end user monitoring that considers the contextual risks in determining the number and type of post-distribution monitoring activities that should take place; the results of the end user monitoring activities are regularly monitored; and mitigating measures are adapted, or indicators of irregularities addressed, on a timely basis.

Staff Responsible: Chief, Supply and Logistics

Implementation Date: 31 March 2024

4. Humanitarian cash transfers pilot initiative **Medium**

Weaknesses in formulating a pilot initiative for a humanitarian cash transfer project meant that the country office was unable to obtain assurance that the humanitarian cash transfers project achieved its objectives and could be taken to scale to meet the needs of crisis-affected populations.

As part of the country office's drought response, the office piloted nutrition-sensitive humanitarian cash transfer in Somaliland, in the most drought-affected districts and villages. During the period covered by this audit, the country office disbursed approximately US$500,000 to beneficiaries during two payment cycles. When piloting a new approach to meet the needs of vulnerable populations, country offices should clearly define the objectives of the pilot and the criteria to be used in evaluating its success and suitability for wider application and should perform a post-pilot assessment. The audit assessed how the pilot was conducted and the adequacy and effectiveness of the controls in place.

Piloting initiatives: The main objective of the pilot was to provide life-saving support to selected beneficiaries to mitigate risks of resorting to negative coping mechanisms and further worsening their nutritional conditions and children's well-being. The country office relied on the partner monitoring tool to handle complaints and feedback from beneficiaries. Relying mainly on a partner's own feedback mechanism when the partnerwhich is involved in implementation itself, may inhibit people from coming forward with complaints that relate to that same partner. Furthermore, key initiative assessment criteria were not defined, nor was there a timeline or target completion date. The pilot was implemented in one district and five villages, but the 2022 annual review noted that the implementation of the pilot was constrained because of limited donor interest in humanitarian cash transfer in Somalia, indicating lack of clarity on the purpose of the pilot. In the view of the audit team, the lack of defined assessment criteria for scaling the activity may have resulted in missed opportunities to identify and manage the risks of such an activity, identify any deficiencies that would need addressing if humanitarian cash transfers were taken to scale, and provide evidence that the initiative works in the Somalian context.

Protection of beneficiaries' data: Review of correspondence between the office and the financial service provider (FSP) indicated that some specific security precautions were taken in the sharing of beneficiary data. The audit noted, however, that in addition to mobile number information required for payment, additional beneficiary data, such as personal information including age and marital status, were shared with the FSP without being encrypted or password protected. Although the FSP had signed data protection clauses, there is a risk that beneficiaries' personal data could be misused, which in turn could cause harm to beneficiaries and/or UNICEF's reputation.

AGREED ACTION 4

The country office agrees to:

(i) Ensure that for any pilot, mechanisms are in place to monitor and evaluate success or failure of the pilot and to capture learnings to inform any future humanitarian cash transfer programmes.

(ii) Strengthen mechanisms to ensure that beneficiaries' personal data are adequately protected.

Staff Responsible: Deputy Representative Programme; and Chief, Social Policy
Implementation Date: 31 July 2024

5. Service contract management **Medium**

The country office did not always identify contractual risks or develop adequate risk mitigation actions on significant service contracts. Failing to do so could result in missed opportunities to maximize the cost-effective use of UNICEF funds and to mitigate the risk of misuse of resources.

From January 2022 to June 2023, the Somalia Country Office spent US$46.3 million on service contracts. The audit assessed the adequacy and effectiveness of controls in place to ensure that procured services are aligned with programmatic needs, are appropriate in terms of quality and quantity, are delivered on time and represent efficient and effective use of UNICEF resources.

Human resources (HR) services: The country office issued 38 short-term contracts with an HR company totalling US$2.7 million during the period under audit. The contracted personnel included international and national personnel located in various locations. Contracted personnel terms of reference were defined by the relevant programme sections. The country office awarded contracts for provision of third-party HR services in high security-risk areas, piggybacking on a United Nations organizations contract. Although the contract risks were not considered at the time of engagement, a 2022 standard operating procedure developed for the use of HR services identified several recruitment-related risks. No mitigation measures were put in place, however. In addition, although the standard operating procedures required a performance evaluation of the consultants, no clear criteria were set for the HR service providers' performance evaluation. This is important because service providers should be held to account for the management of the contractors and their performance, as the office was paying for the quality of overall service delivered.

Financial service providers: The country office obtained an exceptional approval to contract an FSP to allow for the implementation of the humanitarian cash transfer pilot project. The approval was premised on the implementation of key risk mitigation measures. One of the conditions was the inclusion of a clause that required the FSP to complete disbursements to beneficiaries within 48 hours of receipt of the payment instruction. This clause was not included, and delays beyond 48 hours were noted. Another measure was to limit UNICEF's exposure by limiting the advance payment made to the FSP per cycle, but the amount sent of US$231,120 exceeded the recommended US$140,000 without any additional risk mitigation measures. The office explained that this was due to the reduction in payment cycles as a result of delays in implementation and the short duration of the relevant grant. In high-risk environments, the country office should consider and put in place appropriate risk-mitigating measures. The audit found that although there may have been good reason for not implementing the recommended measures, no other mitigations were put in place.

AGREED ACTION 5

The country office agrees to strengthen contract service management by:

(i) Ensuring that risks related to the management of HR service providers are identified and mitigation actions developed and implemented and putting in place clear measures by which the performance of HR service vendors will be managed and evaluated.

(ii) Where recommended risk mitigation measures cannot be instituted for a service provider in a high-risk environment, documenting the specific contractual and contextual risks and what actions will be in place for mitigating them, if any.

Staff Responsible: Deputy Representative Operations; and Contract Manager
Implementation Date: 30 June 2024

6. Construction management Medium

Between January 2022 and July 2023, the country office directly procured construction services and drilling works amounting to US$8.9 million and had ongoing construction projects amounting to US$4.2 million. In addition, the office spent at least US$11.4 million on construction works (including repair and rehabilitation) through implementing partners. The audit therefore assessed the adequacy and effectiveness of the planning, management and oversight of construction activities.

Construction through partners: The audit noted that UNICEF's procedure on construction, which prohibits using the 'indirect' modality with CSOs for projects over US$100,000, was not implemented in some instances. For example, the audit sample selected included a construction project amounting to US$198,222 that was implemented through a CSO, with no documented justification or mitigations in place. Further, the review of construction project documents revealed variations in agreed deliverables not communicated to UNICEF. The office indicated that changes made in the construction projects were based on government requests and acknowledged that the process was not documented.

The procedures also require country offices to conduct CSO capacity assessment before signing work plans or programme documents and to include special conditions for construction when an intervention includes construction work. In all six of the audit samples, for construction projects implemented through CSOs, no capacity assessments were conducted, and the special conditions were not reflected in the programme documents. Failing to apply required procedures for indirect implementation without any additional mitigating measures may have a serious impact on costs, timelines and performance of the project. In general, the lack of adherence to procedure, without documented analysis of assessed risks and the implementation of appropriate mitigants, could result in failure to prevent and address threats to the achievement of planned results.

Direct construction: The audit sample indicated that construction contracts were awarded through a competitive selection process as required. However, a review of a project amounting to US$1.2 million found that the inspection and supervision reports received showed that latrines constructed had no accessibility for people with disabilities and no GPS location for the construction. The audit also noted that reliance on pictures could be inadequate, as pictures said to be taken from two different locations looked the same. For another one-year construction project, the audit noted that although UNICEF contract terms and conditions allow variations, documents showed that the office had approved 20 project variations for a total value of US$669,890, or 55 per cent of the original contract value, since the project started. Numerous variations could be an indication of weaknesses in the design or inadequate oversight, resulting in cost overruns and completion delays.

The audit also noted that although there were frequent delays in completing construction projects, one company was regularly awarded additional contracts. Furthermore, the country office's contract performance rating for the construction company was put in the system as 'very good' without mention of the delays and their impact. Without a clear overview of ongoing construction projects and their implementation status, or a general analysis of variation, delays and cost variances, irregular trends and problems with underperforming contractors may not be addressed on a timely basis.

AGREED ACTION 6

The country office agrees to strengthen its management of construction projects by:

(i) Ensuring that where construction procedure cannot be adhered to, there is a clear analysis of the contextual and contractual risks, and appropriate mitigating actions are implemented.

(ii) Strengthening oversight over direct construction so that any irregular trends are identified and addressed through concrete actions, ensuring delays and cost variations are considered as part of contractors' performance evaluation.

Staff Responsible: Chief, Supply and Logistics

Implementation Date: 30 June 2024

7. Prevention of sexual exploitation and abuse — Medium

In an economy where aid is a critical resource for communities, individuals who control the distribution of humanitarian aid wield enormous power and influence over communities. Such a context makes recipients of assistance vulnerable to sexual exploitation and abuse. Due to insecurity and challenges in humanitarian access, United Nations agencies and international non-governmental organizations (NGOs) rely on a network of state and non-state actors to deliver humanitarian aid to affected populations. Therefore, the audit assessed whether controls were adequate and operating well to ensure that the risk of sexual exploitation and abuse within the local context was understood and that sufficient mitigating actions were in place.

PSEA activities: The audit reviewed a sample of 15 CSOs and related programmatic visits and field monitoring reports and noted that in some instances PSEA activities required of partners were not consistently defined in the work plans, and that as a consequence there were no well-defined indicators for monitoring. A standard checklist was developed by one programme, but it was not used by all programmes, and the monitoring reports and programmatic visits sampled did not included PSEA-related questions. The lack of consistent PSEA activities across all programmes and clearly defined indicators could reduce the office's ability to monitor the effective implementation of PSEA and to collect, analyse and act on the PSEA data gathered.

Supported government personnel: Currently, there is no clarity or UNICEF guidance on what a country office is required to do in regard to PSEA awareness and training for civil servants such as teachers and frontline health workers supported by funds from UNICEF. The country office indicated that a global PSEA cooperation framework with governments is being developed by UNICEF headquarters. However, interim guidance could be sought from headquarters for such scenarios.

Sub-contracted NGOs: Although programme documents signed with CSO partners include PSEA clauses, a review of a sample of programme documents noted that some CSOs were allowed to sub-contract other NGOs to implement the activities. In such instances, the partner was to provide the list of sub-contracted NGOs and conduct capacity and PSEA assessments of the agreed list. The audit noted, however, that sub-contracted entities' names were not systematically provided as required and therefore there was no evidence that the capacity assessments and PSEA assessment were performed. The office noted that prior to the issuance of revised guidance in 2022, downstream PSEA checks were not required.

AGREED ACTION 7

The country office agrees to strengthen its PSEA implementation by:

(i) Ensuring that PSEA activities and indicators are well monitored so that findings can be consolidated, analysed and actioned, and that PSEA requirements for sub-contracted parties and suppliers are complied with.

(ii) In consultation with the Division of Data, Analytics, Planning and Monitoring, implement interim actions with regards to government personnel supported by UNICEF funds.

Staff Responsible: Deputy Representative Programme and Child Protection specialist

Implementation Date: 30 June 2024

8. Accountability to affected populations — Medium

The country office's AAP strategy and mechanisms are not fully implemented, thus limiting the office's ability to enhance the relevance and impact of its interventions on target populations by collating and reflecting their views when designing those interventions.

Protracted drought, conflict and economic pressures in Somalia continue to drive an increase in humanitarian needs in a wide variety of sectors, with an estimated 8.25 million people in need according to the 2023 Humanitarian Needs Overview. As part of the L3 emergency, the country office established a dedicated AAP post, developed an AAP work plan and generated reports that were discussed with programme staff at programme coordination meetings. The audit reviewed whether the systems and controls for embedding AAP principles in all programme planning processes and management decisions in the humanitarian programme cycle were adequate and being implemented as designed.

AAP prioritisation: UNICEF guidance indicates that in order to ensure effective implementation of AAP in the country programme, the AAP role must have cross-cutting decision-making and oversight functions and be part of the Country Management Team. The audit noted that during the period under review, there were no reports, on AAP to the country management team. Country

Management Team (CMT). Considering the scale of humanitarian needs in the country, irregular consideration by the CMT, may reduce the office's ability to ensure effective implementation of AAP in UNICEF Somalia.

Embedding AAP: The office's AAP work plan focused on six outputs, including the setting up of complaint and feedback mechanisms. There were no related AAP output indicators in the work plans agreed with the government, however, nor were these indicators reflected, systematically, in the signed programme documents reviewed by the audit. Further, there was no clear articulation of how the AAP work plan would be operationalized as its outputs had not been reflected in the various programmes. Therefore, there were gaps in approaches, tools and implementation mechanisms. For example, the audit reviewed a sample of programmatic visits and programme monitoring reports and noted that AAP was not systematically considered and reported on. An inadequately implemented AAP plan could result in missed opportunities to build on the community engagement efforts within programmes and across sections.

Feedback mechanisms: The country office had deployed various tools and mechanisms to strengthen community engagement and enhance feedback. In 2022, however, the office proactively commissioned an AAP assessment in 22 districts within nine regions in South Central Somalia that found that 45 per cent of respondents, the majority women, had not been involved in the planning process. In addition, the audit noted, there was no evidence of how the information from the multiple tools deployed had been collated, organized, analysed and used to inform programme design and/or course correction.

AAP partnerships and coordination: The Somalia humanitarian response plan noted gaps regarding the coordination and implementation of collective AAP approaches and efforts by United Nations Organizations in Somalia. The audit noted that although UNICEF Somalia is a member of the Somalia community engagement and accountability task force, the office did not consider how it could leverage collective AAP information and resources through better coordination with United Nations agencies. Further, although inter-agency participation was identified as an activity in the AAP work plans, it was not mainstreamed in the programmes with other United Nations agencies. Insufficient coordination on AAP with other United Nations funds and programmes results in a missed opportunity for learning, leveraging resources and creating a more coherent and holistic approach to programming.

AGREED ACTION 8

The country office agrees to build on its accountability to affected populations by:

(i) Reviewing the prioritization of AAP by ensuring that AAP issues are regularly reported to and resolved by the Country Management Team; and operationalizing the AAP work plan by including and monitoring its outputs and activities, in all programmes and processes.

(ii) Implementing mechanisms to close the feedback loop and ensure the feedback being collected is collated, analyzed and used to inform programme design or course correct.

(iii) Expand its collaboration with other United Nations agencies in order to strengthen its AAP implementation.

Staff Responsible: Deputy Representative Programme; and Chief, Social and Behaviour Change

Implementation Date: 30 June 2024

9. Fraud risk management — Medium

There was a need to improve the Somalia Country Office's approach to fraud risk assessments and to ensure clarity of accountabilities for preventing, detecting and responding to indicators of fraud.

The nature of humanitarian assistance, including commodities and cash transfers, as well as the reality of working in conflict zones with limited access and monitoring challenges, meant the Somalia Country Office was operating in a high fraud-risk environment. 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 appropriately respond to any suspected fraudulent activity.

The country office had established a fraud risk governance process, with a risk management committee that met quarterly. A dedicated team was set up to advise the risk management committee, train UNICEF staff and partners, and collaborate with the inter-agency risk management unit. The following was noted:

Fraud risk assessment: The UNICEF guide on fraud risk assessment requires offices to assess their potential fraud risks. Although the office identified and recorded three "medium" risks related to fraud and waste, the audit noted that its fraud risk assessment did not include risks related to post-distribution aid diversion and issues around working in a clan-based system. These risks, though known and noted in various reports shared with OIAI, were not specifically assessed with regards to fraud risk, and therefore the response strategy for these risks was not sufficiently articulated or documented.

In addition, there were significant or unusual projects/programmes, such as humanitarian cash transfers, capacity injections, construction and supply, that were inherently high fraud-risk areas, but potential fraud risks were not assessed, collated and used to inform the programme approaches or office strategies. For example, for the humanitarian cash transfers initiative, the office developed a separate project risk register with four fraud risks that were not integrated into the country office's overall assessment. For capacity injections, the activity-specific risks were not collated and considered as part of the country office's risks. The different risk assessments were siloed and needed to be collated in one place to ensure the country office was focused on the most significant cross-cutting risks and took necessary actions to mitigate them.

Detection, monitoring and reporting: Although the office has a fraud reporting mechanism in place and has reported a number of fraud allegations, potential red flags and fraud indicators related to high-risk activities and projects were not articulated or included in the office risk register. Therefore, the office did not have the ability to monitor red flags or assess the effectiveness of existing fraud control measures in high-risk activities such as cash transfers and supply distribution.

The lack of a comprehensive fraud risk assessment combined with insufficient red flag monitoring reduced the office's ability to identify and assess potential fraud schemes and implement proportionate mitigations.

AGREED ACTION 9

The country office agrees to strengthen its fraud risk management by:

(i) Ensuring that significant contextual and programme-specific fraud risks are assessed, and appropriate response and mitigations strategies are implemented.

(ii) Taking steps to ensure fraud risk assessments are used to identify key red flags and fraud indicators that are then regularly monitored, assessed and, when relevant, used to update controls.

Staff Responsible: Deputy Representative Operations
Implementation Date: 30 June 2024

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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