Office of Internal Audit and Investigations

Report on the Internal Audit of the
Ukraine Country Office

DECEMBER 2023

Report 2023/19

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EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the Ukraine Country Office covering the period from March 2022 to February 2023. The audit was conducted from 27 February to 17 March 2023 in conformance with the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. The overarching objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over a selection of significant risk areas of the Ukraine Country Office, including humanitarian cash transfers, implementing partners, programme supplies and Harmonized Approach to Cash Transfers (HACT) assurance activities. The descriptions of the specific risks identified during the engagement planning process are provided in the Audit Objective and Scope Section of this report.

The Ukraine Country Office works mainly with civil society organizations (CSOs) in the implementation of the emergency response and through arrangements with municipalities that require a memorandum of understanding. During the period audited, the Country Office expended approximately US$293 million on cash transfers to beneficiaries, which represented 60.2 per cent of total expenditure in 2022, and US$86.9 million on programme supplies, which represented 17.9 per cent. The Country Office transferred approximately US$34 million to implementing partners, which represented 7 per cent of expenditure. There were a number of risks to programme objectives and service delivery around humanitarian cash transfers, provision of supplies, and the use of partnerships and cash transfers to implementing partners. The ongoing conflict and large movement of people indicates a high-risk environment for sexual exploitation and abuse for children and women. The audit therefore sought to determine whether and how the Country Office managed those risks.

Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management and control processes were **Partially Satisfactory, Major Improvement Needed**, meaning that the weaknesses or deficiencies identified could have a materially negative impact on the performance of the audited entity, area, activity or process. (See the Appendix for definitions of the conclusion ratings.)

	Satisfactory
	Partially Satisfactory, Improvement Needed
➡	*Partially Satisfactory, Major Improvement Needed*
	Unsatisfactory

Summary of Observations and Agreed Actions

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

- **Staff security and welfare:** UNICEF staff, consultants and surge personnel worked under highly stressful and volatile conditions, with support from regional and HQ colleagues. The Ukraine Country Office established measures to aid in ensuring safety and staff wellbeing during the crisis. For example, due to the uncertainty of the conflict, there was a relocation of staff from Kramatorsk to Dnipro, followed by a relocation of almost all staff to Lviv in the western region. After an assessment of the security situation and in line with the UN's stay and deliver approach, the Ukraine Country Office issued a directive in July 2022 requiring all staff to return to their duty stations.

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

- **Humanitarian cash transfers**: By the end of 2022, the humanitarian cash transfers programme in Ukraine was the largest ever undertaken by UNICEF. Humanitarian cash transfers represented 71 per cent of programme expenses for the Ukraine Country Office. The evidence provided to the audit team was insufficient to enable an objective assessment of the adequacy of analyses and consultations undertaken with stakeholders (including relevant government partners) in establishing the targets and organizational goals. Such analyses and consultations are important to ensure proper identification of the most deserving population and maximize the impact of the intervention. Additionally, the Country Office's risk management was not agile enough to keep pace with the constant changes in the factors that were impacting effective implementation and management of the humanitarian cash transfer programme.

- **Inventory management**: Programme supplies were the second largest programme expense for 2022, representing 21 per cent of expenses. Approximately US$100 million worth of supplies was distributed through consignees without proper agreements setting out UNICEF expectations with those consignees. This created elevated risk to effective accountability of consignees. In other instances, the quantities and values of the consignments exceeded the quantities and values set out in the agreements that the Country Office signed with the consignees, creating elevated risks to the effective management of the consignments. The Country Office relied on monitoring activities to manage risks associated with consignments; however, these are potentially ineffective given that their findings may not result in any consequences for the consignees.

- **Management of risks in cash transfers**: The Country Office disbursed large sums of direct cash transfers and supplies to high-risk partners, without any specific risk assessment and/or additional mitigating measures. Delays in the performance, and inadequate coverage, of such assessments or mitigation may preclude the Country Office from promptly identifying and taking appropriate measures to manage risks.

- **Programme monitoring**: The Country Office put in place different monitoring mechanisms. However, it did not develop comprehensive monitoring plans and accountabilities, which resulted in gaps in the monitoring activities of areas such as cash distribution and end-user monitoring. This could impede the timely adaptation of activities and the efficacy of the response.

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**
Governance	**Humanitarian Cash Transfers (HCTs) (Observation 1)**: Ensure that the relevant analyses, stakeholder consultations and approvals supporting the targets, and any changes thereof, are done in a manner that provides evidence that the process was risk informed and	**High**

	performed correctly. Furthermore, regularly update and revise the risk assessment with any lessons learned from prior payment cycles, and use the lessons learned to embed appropriate controls in the HCT programme and inform changes to the HCT approach.	Red
	Humanitarian response (Observation 3): Incorporate lessons learned to create an exit strategy with a set of sector-appropriate criteria that will assist in identifying the appropriate time to commence the humanitarian phase down or phase out; Finalize an evidence generation plan that ensures adequate coverage, quality and equity and prioritize its roll-out.	Medium
	Organizational structure and staffing (Observation 4): Regularly review the flexibility and affordability of the staffing structure and revise as needed, in line with changes in the emergency response.	Medium
Risk management	**Fraud risk management (Observation 10):** Revise the Country Office's Anti-Fraud Plan to ensure that fraud risk assessments whenever necessary are conducted. Institute measures to ensure senior staff and staff that are assigned key tasks (such as procurement) are required to file the disclosure statement upon appointment. In consultation with the Regional Office and Chief Risk Officer, determine the Country Office's risk appetite, tolerances and mitigants to be implemented for significant processes and activities.	Medium
Control processes	**Inventory management (Observation 2)**: Based on the needs assessment of beneficiaries and logistics capacity of partners, establish contracts/programme documents with all consignees of programme supplies accurately stating the quantities and values of supplies to be consigned, as well as clearly stating the consignees inventory management responsibilities and accountability.	High
	Management of risks in cash transfers (Observation 6): Periodically determine the adequacy of mitigating measures put in place with respect to high-risk partners, and revise those measures as necessary, to achieve adequate risk management sufficient to ensure effective implementation of interventions and intended use of resources entrusted to implementing partners.	Medium
	Programme monitoring (Observation 7): Finalize the monitoring plan and develop a programme monitoring and accountability matrix that encompasses all monitoring activities to ensure sufficiency in terms of coverage, timing and purpose; Utilise digital corporate tools to document, collate and analyse all monitoring activities and the follow up on significant findings.	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.

The security situation in Ukraine deteriorated rapidly following the launch of a Russian Federation military offensive on 24 February 2022. The armed violence escalated in at least eight oblasts (regions), including the capital city of Kyiv, as well as in the eastern oblasts Donetska and Luhanska, which were already affected by conflict. This has led to a grave humanitarian crisis, with millions of people in dire need, including those who have fled across borders and many more who are on the move inside the country or unable to leave encircled towns and cities.[1] The number of people in need in Ukraine grew from 3.4 million [2] in the original 2022 Humanitarian Action for Children appeal pre-war, to 27.3 million people in need inside Ukraine and in refugee-hosting countries in 2023.

Children are paying an extraordinary price. In areas affected by intense fighting, services have been decimated, and protection mechanisms can no longer support vulnerable children and families. The fighting has heightened children's risk for disease, violence, family separation, child trafficking, unexploded ordinances and disrupted schooling. Access to vulnerable families in areas under active fighting remains challenging.[3]

The Ukraine Country Office 2018-2022 country programme was extended by one year after the start of the military offensive. On 5 March 2022 the United Nations activated a system-wide Level 3 emergency response, which was changed to a Level 2 emergency response on 8 March 2023.

The Humanitarian Action for Children (HAC) appeal for Ukraine (Figure 1) totalled US$987.3 million for 2022 and US$829.2 million for 2023. The response was built around six main

Figure 1: 2022 HAC appeal (Revised Nov, 2022)

interventions in Health, Nutrition, Child Protection, Education, Water, Sanitation and Hygiene (WASH) and Social Protection.
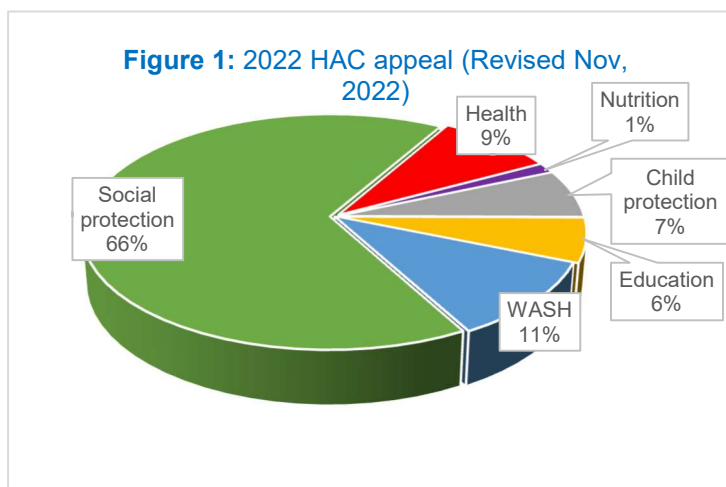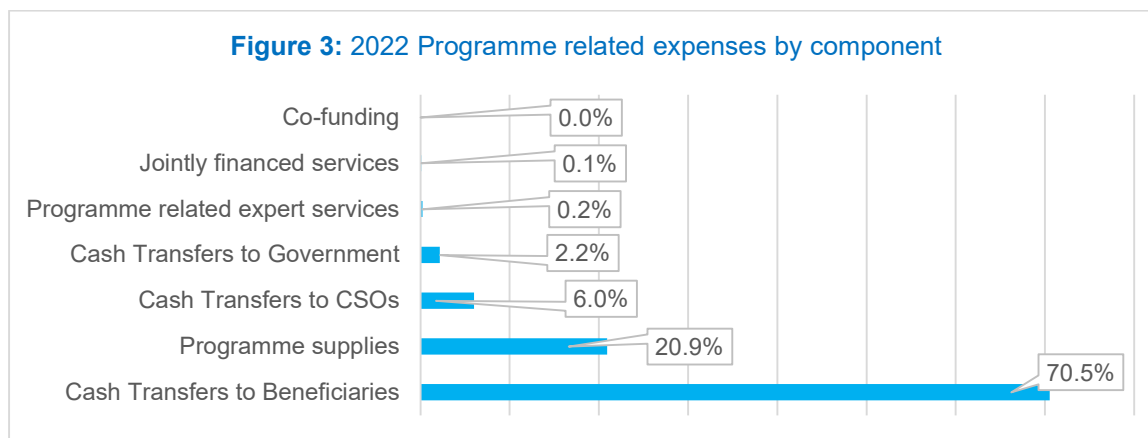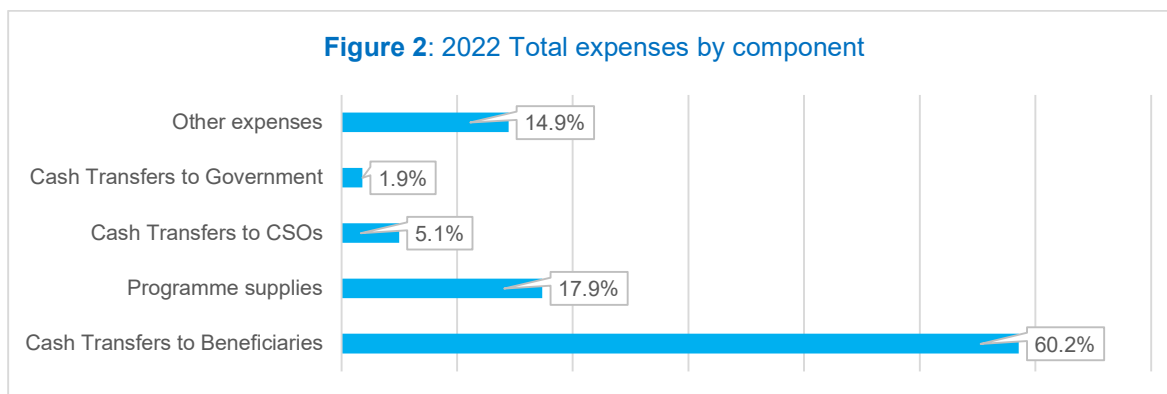
It is important to recognize that after the onset of the conflict in February 2022, the Ukraine Country Office scaled up significantly, from a budget of US$41.5 million with a US$15 million HAC appeal in 2021, to funds mobilized amounting to US$856 million as of December 2022.

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[1] Ukraine | OCHA (unocha.org) and OCHA - Ukraine Flash Appeal 2022
[2] 2022-HAC-Ukraine
[3] 2023-HAC-Ukraine-and-Refugee Response

Figure 2 shows how of the US$856 million received in 2022, approximately US$492 million was utilized by the end of the year. Programme related expenses, in Figure 3, were 85 per cent of total expenses in 2022. Seventy- eight per cent of total expenses in 2022 were concentrated around two components: cash transfers to beneficiaries (60.2 per cent of total expenses and 70.5 per cent of programme expenses) and programme supplies (17.9 per cent of total expenses and 20.9 per cent of programme expenses).

Figure 2: 2022 Total expenses by component

Component	Percentage
Other expenses	14.9%
Cash Transfers to Government	1.9%
Cash Transfers to CSOs	5.1%
Programme supplies	17.9%
Cash Transfers to Beneficiaries	60.2%

Figure 3: 2022 Programme related expenses by component

Component	Percentage
Co-funding	0.0%
Jointly financed services	0.1%
Programme related expert services	0.2%
Cash Transfers to Government	2.2%
Cash Transfers to CSOs	6.0%
Programme supplies	20.9%
Cash Transfers to Beneficiaries	70.5%

The Country Office Representative was assigned to Ukraine in July 2021. At the time of the audit the Ukraine Country Office had 258 staff members, an increase of 166 positions from 2021. Of the 258 staff, 170 were based in the main office in Kyiv and 88 were in the field. There are seven field offices, in Dnipro, Kropvyntsky, Odesa, Poltava and Lviv, which were all established during the period under review. The Country Office has a limited presence in Luhansk and Donetsk, which are in Non-Governmental Controlled Areas (NGCA).

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, including humanitarian cash transfers, programme supplies, implementing partnerships, and Harmonized Approach to Cash Transfers (HACT) assurance activities. 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.[4]

RISK AREA	KEY INHERENT RISKS EVALUATED DURING THE AUDIT
Emergency response planning implementation and monitoring	The Country Office has exponentially increased the annual budget and number of partnerships for the Level 3 emergency response. If not carefully managed, the significant increase in the response and move to a corporate response can increase the risks of fractured accountability and reporting structures, communication failures, and delayed or inefficient use of resources. The high number of affected people, geographic spread of interventions, and the opening of five offices toward the end of 2022 increases the risk that the mechanisms for performance monitoring might not be fully in place and that the response may not be informed by the monitoring.
Staffing structure and human resources management	The Country Office significantly increased its HR capacity and opened a number of new field offices toward the end of 2022. Delays in decentralizing the response could generate an imbalance in the workforce between the Country Office and the field; create lack of clarity in roles and responsibilities, resulting insufficient human resources to deal with the scale of response where it matters most (close to the people in need); and result in unequal workloads and stress levels, which impact staff well-being and morale.
Humanitarian cash transfers	Between the onset of the crisis and December 2022, the Ukraine Country Office transferred approximately US$300 million in multi-purpose cash transfers, representing the largest humanitarian cash transfer (HCT) in UNICEF to date. The rapid and significant scale up of the HCT programme increases the risk that there are inadequate controls over beneficiary data and cash recipients are not the intended beneficiaries and/or intended beneficiaries do not receive the full cash transfer amount on time.
Supply and logistics	Between February 2022 and March 2023, the Country Office procured supplies amounting to US$185 million. At the time of the audit, US$143 million worth of supplies had been received in country, with US$108 million worth delivered during the same period. The Country Office had seven warehouses with inventory designated for beneficiaries. The use of simplified procedures during emergencies increases the risk of inadequate, inefficient, or otherwise suboptimal use of resources. Inadequate supply management heightens the risk of losses and diversion of supplies.

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[4] 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.

Implementing and collaborative partnerships	To respond to the crisis, the Ukraine Country Office engaged and worked with implementing partners it had not worked with before and/or who had no previous experience responding to such a crisis. This was in a context where governance systems were under stress, either because of people fleeing conflict or a focus on the military response.
	The risk was heightened that the operational and financial capacities of most of those partners was impaired or lacking, which could result in delays and/or ineffective implementation of the response.

The audit was conducted in person from 27 February to 17 March 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 March 2022 to February 2023. It involved a combination of methods, tools and techniques, including interviews, data analytics, document review, tests of transactions, evaluations and validation of preliminary observations.

The key areas where actions are needed are summarized below.

1. Humanitarian cash transfers	High

There was insufficient evidence to enable an objective assessment of the quality of the analyses undertaken and adequacy of consultations with stakeholders (including relevant government partners) in establishing the targets and organizational goals. Additionally, the Country Office's risk management was not agile enough to keep pace with the constant changes in the factors that were impacting on effective implementation and management of the humanitarian cash transfer (HCT) programme.

The Ukraine Country Office implemented a humanitarian cash transfer (HCT) programme, providing multi-purpose cash assistance to selected vulnerable households. By the end of 2022, the Country Office had reached 225,000 households and transferred approximately US$293 million. The audit team was informed that a decision was made by UNICEF Headquarters to run HCT using an online registration system module linked to the HOPE database[5] and Cash Assist[6] was utilized for the bank transfers to the household bank accounts. The audit team noted that HQ approved piloting the HOPE system in the Ukraine response and it had problems in relation to the payment of beneficiaries under the broader UNICEF HCT programme for countries impacted by the crises in Ukraine. Therefore, those issues related to the use of the HOPE system will be covered separately in the OIAI audit of UNICEF's regional response to the Ukraine crises.

The audit team assessed the adequacy of controls over beneficiary targeting and beneficiary data, and whether there was reasonable assurance that intended beneficiaries received the correct cash transfer amount on time. OIAI noted the following:

Targeting: In coordination with the relevant government partner, and based on a 2019 Child Poverty report, UNICEF decided to undertake nationwide targeting of potential beneficiaries. The Ukraine Office informed the audit team that:

- The decision to establish a target of 265,000 households was made and agreed with the Government at the onset of the emergency in March 2022. Due to funding constraints, it was decided that a staggered approach would be used to reach that target of 265,000 households.

- The criteria, was adjusted following consultations with the Government and other humanitarian actors to select 55,000 households for the initial phase of the HCT programme.

- Subsequent changes, aiming to reach the final caseload of 265,000 households, were agreed to with the Government.

The audit team sought to assess the adequacy of the analyses and consultations with relevant stakeholders in making the targeting decisions. Such analyses and consultations are important to ensure proper identification of the most deserving populations and maximize the impact of the intervention. Although the Country Office stated that targeting decisions were made through internal discussions with the Country Office Management Team and the Inter-Agency Cash Working Group, the evidence that it provided to the audit team was insufficient to enable objective assessment of the quality of the analyses undertaken and adequacy of consultations with stakeholders and relevant government partners in establishing and increasing the target. The audit team was only provided with:

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[5] Humanitarian cash Operations and Programme Ecosystem (HOPE) is UNICEF's humanitarian cash transfer management information system.
[6] Cash Assist is a UNHCR-owned system used by UNICEF for creation of Cash Plans.

- The Country Office's email to the Government that was meant to share changes to the final target of 265,000 households: It was not clear whether or the extent to which consultations were held regarding the reason for the changes.

- Deputy Executive Director's briefing on HCT in Ukraine dated 24 May, which shows the rationale behind changing the target, and the involvement of key decision makers in UNICEF: This briefing does not indicate the nature and extent of analyses conducted and consultations held with the Government and other humanitarian actors, that justify the change.

- A briefing memo dated 6 March that mentions the increased 265,000 household target: This briefing does not indicate the nature and extent of analyses conducted and consultations held with the Government and other humanitarian actors, that support the increase.

HCT risk management: At the onset of the HCT programme, the Country Office developed a risk mitigation memo and HCT project risk register, whereby potential risks and the corresponding risk management measures were identified. However, the register was not regularly reviewed and updated to reflect emerging or evolving risks that could limit the efficient and effective implementation of the HCT programme that would result from changes to its scope. The Country Office's risk management practices were not agile enough to keep pace with the constant changes in the factors that were impacting effective implementation and management of the HCT programme. For example, the audit team noted that HCT programme was expanded to certain reoccupied areas and there were changes made to targeting criteria, which resulted in increases in the number and types of households covered by the programme.

OIAI also noted that while the Country Office noted various control issues had been identified, it did not promptly adjust its risk register and mitigation measures as needed to address them. For example, various control issues such as those related to the sources of data used by the HOPE system amplified the risks of incorrect amounts being paid, ineligible beneficiaries receiving cash and/or eligible beneficiaries not receiving amounts due on time.

The Country Office informed OIAI that new elements in the process and changes in the operationalization of the HCT will be reflected in the risk matrix, under development at the time of the audit.

AGREED ACTIONS

The Country Office agrees to:
   i.   Ensure that relevant analysis, stakeholders consultations, and approvals supporting changes to targets and/or targeting criteria, are conducted and documented in a manner that provides clear evidence that the process was risk informed and performed correctly.

   ii. Perform regular updates to the risk assessment and corresponding risk mitigation measures and create an action plan to address any gaps identified from prior payment cycles and other lessons learned that must be addressed to have appropriate controls in the HCT programme and make changes to the HCT approach or updates to the process.

Staff Responsible: Head of Social Protection Section
Implementation Date: 31 October 2023

2. Supplies management	High

In several instances, supplies were consigned to partners for onward distribution to beneficiaries without agreements setting out UNICEF expectations, creating elevated risk to effective accountability of consignees. In other instances, the quantities and values of the consignments exceeded the quantities and values set out in the agreements that the Country Office signed with the consignees, creating elevated risks to the effective management of the consignments. The Country Office relied on monitoring activities to manage risks associated with consignments; however, those activities are potentially ineffective given that their findings may not result in any consequences for the consignees.

The Country Office implemented an emergency supply and logistics strategy, on a 'no regrets' basis, to facilitate scale up of supply and logistics activities for emergency programmatic response. Prior to the conflict, the Country Office had minimal logistics and warehousing capacity. Between February 2022 and March 2023, the Country Office procured supplies worth US$185 million, of which US$108 million was distributed to 1,026 consignees. To distribute supplies, the Country Office employed a model whereby supplies were consigned to government partners, CSOs, volunteers and other procurement service providers. These consignees were expected to distribute the supplies to beneficiaries.

The audit team sought to assess the adequacy and effectiveness of the mitigation of risks associated with the use of consignees and other third parties for the distribution of supplies. OIAI noted the following regarding the consignment of supplies:

In some instances, supplies were consigned based solely on requests from the consignees. This suggests that the Country Office was not adequately managing risks of potential fraud, waste and abuse that are typically associated excessive inventory. It also suggests that Country Office lacked adequate assurance on the needs of its desired beneficiaries.

The audit team also noted that formal agreements on how the consignments would be stored, distributed and reported on were not consistently established. Where contracting such as humanitarian programme documents did exist, it did not have adequate provisions on how UNICEF expected the consignees to manage and distribute the consignments. Without formal agreements, there was no legal basis for UNICEF to hold consignees accountable for any failures of their controls to adequately safeguard the supplies and ensure they were provided to target beneficiaries.

Some supplies were distributed based on request letters or distribution lists provided by the consignees. The consignment of programme supplies without formal agreements created a risk, as there would be no basis to hold consignees accountable. Where contracting documents such as memorandum of understanding, letter of intent, and humanitarian programme documents existed, the documents did not have clear provisions on how UNICEF expected the consignees to manage and distribute the consignments.

In the instances where supplies were consigned based on programme documents that the Country Office signed with the consignees, the quantities and values of consignments in those programme documents were typically small fractions of the actual quantities and value of supplies sent to the partner. For example, in one instance, the supplies component of programme document was US$0.2 million, while the actual value of supplies sent to this CSO was US$1.5 million. In another case, the programme document had no supplies component, but the Country

Office sent US$1.4 million worth of supplies to the partner. One partner informed the audit team that they received more supplies than they had requested, and at the time of the audit in March 2023, they still had the excess supplies and were waiting for instructions from the Country Office regarding next steps. Overall, in the audit sample reviewed, the Country Office sent supplies worth US$12 million to partners (including six high risk partners), but only US$4 million worth of supplies was reflected in the agreements signed with the partners.

The Country Office informed OIAI that it managed consignments through its monitoring activities, including dashboards that show the status of supplies on consignment. While monitoring activities are important to detect issues related to distribution, due to the absence of agreements, they are potentially ineffective given that their findings of mismanagement would not result in any consequences for the consignees. OIAI is of the view that monitoring activities, being detective controls, are less effective and efficient than preventative controls such as establishment of contracts with consignees to manage risks to supplies, and capacity assessment of consignees to assess capacities to adequately manage supplies. Regarding the latter, the Country Office did not provide sufficient evidence that it systematically conducts logistic capacity assessment for UNICEF's or consignees' warehouses, prior to the approval of HPD/Programme Cooperation Agreements (PCA). The audit team was only provided with a logistic and security assessment for the warehouse in Dnipro (June 2022) and a counterpart logistics capacity assessment report for one CSO. A logistics counterpart assessment collates information such as the sufficiency of storage capacity; the accessibility and security of the storage locations; and whether the warehouse is operated and managed to an acceptable standard. Such assessments help ensure critical humanitarian supplies consigned to the counterpart are sufficiently safeguarded from the risk of damage or theft.

AGREED ACTION

The Country Office agrees to, based on the needs assessment of beneficiaries and logistics capacity of partners, establish contracts/programme documents with all consignees of programme supplies accurately stating the quantities and values of supplies to be consigned, as well as clearly stating the consignees' inventory management responsibilities and accountability, including safeguarding of the inventory, maintenance of adequate records of receipt and distribution of supplies, reporting and disposal requirements.

Staff Responsible: Representative, Chief of Operations and Chief of Supply & Logistics
Implementation Date: 30 September 2023

3. Humanitarian response   Medium

As expected, the Country Office utilised information gathered from its consultations with the Government, partners, and clusters in identifying and periodizing its interventions; however, it had not developed and finalized a formal strategy for its eminent scale back and transition from service delivery in emergency to development. The absence of an exit strategy as well as failure to communicate such strategy to all relevant partners mean that UNICEF may be unable to efficiently scale back its operations or effectively transition from humanitarian to development in response to the changing needs of the recipient population and the sensitivities of the conflict.

Planning rooted in analyses of data and evidence can meaningfully contribute to the identification of appropriate programme priorities as well as the cost of implementing those priorities. Ultimately, this can increase the impact of priority activities implemented. The audit team reviewed the Country Office's mechanisms for identifying and prioritizing activities appropriate to the needs of the target population.

Evidence-based programme strategy: In response to the crisis, the Ukraine Country Office significantly scaled up its multi-sectoral response from February 2022. The Humanitarian Action for Children (HAC)[7] appeal, first developed in March 2022, was used as a higher-level planning document. In discussions with the Country Office staff and cluster coordinators, OIAI noted that the main source of information for planning was consultations with the Government, partners and clusters. However, there was insufficient evidence that the Country Office incorporated other data such as the needs assessments, Humanitarian Cash Transfer hotline reports and the REACH database[8] to further inform the selection and prioritization of its interventions. This occurred because the Country Office did not yet have in place a mechanism that evidenced how data that was relevant to and available in the field offices closest to the affected populations was collated, analysed and utilised. Consequently, in OIAI's opinion, strategies to achieve the results as per the work plans could have been better shaped by evidence that addressed coverage, quality and equity, and adaptability to the changing conflict analysis/sensitivity. As a result, a risk remained that interventions prioritized as well as the structures (such as field offices) and resources put in place to implement those interventions may not have adequately addressed the needs of the population impacted by the conflict.

The Country Office stated that evidence generation is one of its priorities for 2023, with evaluations planned for the year. Compiling the evidence and collecting and analysing additional data should help create a more robust evidence-based approach for better planning and programming.

Exit strategy: The Inter Agency Standing Committee (IASC)[9] requires that an exit strategy be included in every plan for humanitarian assistance. This is to help UN entities efficiently transition from emergency to rehabilitation capacity building and resilience of affected populations and governments. UNICEF also requires that a strategy be developed at least one month before the deactivation of an L2/3. However, in the 2023 Annual Management Plan the Ukraine Country Office only identified the need to pivot to recovery priorities in the Central and Western zones of Ukraine, and there was no exit strategy despite the deactivation of the L3 on 8 March 2023.

OIAI appreciates that the Ukraine Country Office was dealing with several competing priorities related to constantly evolving and dire needs of the children and vulnerable persons in areas impacted by the conflict. That being said, the absence of an exit strategy means that UNICEF may be unable to scale back its operations or transition efficiently and effectively from humanitarian to development when appropriate. This specifically created the risk that UNICEF would be unprepared to transition to being a key partner in longer-term, durable solutions for internally displaced people and sustainable support to migrants, returnees and host/receiving communities, as well as other recurring vulnerabilities, as agreed to in the Grand Bargain.[10] The

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[7] The HAC is an annual humanitarian appeal to mobilize resources and to present a high-level global overview of UNICEF's planned humanitarian action.

[8] REACH is a leading humanitarian initiative providing granular data, timely information and in-depth analysis from contexts of crisis, disaster and displacement - Who we are | REACH (reach-initiative.org).

[9] Created by the United Nations (UN) General Assembly in 1991, the IASC is the longest-standing and highest-level humanitarian coordination forum of the UN system.

[10] An agreement between some of the largest donors and humanitarian organizations that have committed to improve the effectiveness and efficiency of the humanitarian action

absence of an exit strategy as well as the failure to communicate it to all relevant stakeholders created a wrong impression of UNICEF's continuing involvement in service delivery in the long-term. If partners' expectations are not met due to a sudden requirement for UNICEF to scale back at a moment's notice, the organization could experience reputation issues as well as incur significant costs related to contract terminations.

AGREED ACTIONS

The Country Office agrees to:

i. Finalize an evidence generation plan that ensures adequate coverage, quality and equity and prioritize its roll-out.

ii. Incorporate lessons learned into an action plan to create an exit strategy to move from humanitarian to rehabilitation/development with a set of sector-appropriate criteria that will assist in identifying the appropriate time to commence the humanitarian phase down or phase out.

Staff Responsible: Chief of Evaluation
Implementation Date: 30 September 2023

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4. Organizational structure and staffing — Medium

In 2021, the Country Office had a total staffing complement of 91, including 68 fixed term (FT) staff and 23 temporary assistance (TA) staff. At the time of the audit in March 2023, that number had increased to 249 staff (173 FT and 76 TA).

In March 2022, the EU activated the temporary protection directive extending harmonized rights across the EU, which offered quick and effective assistance to an influx of millions of people fleeing the war in Ukraine. At that time, Country Office staff self-evacuated, reducing the number of staff who were available on-site (20 per cent fewer staff in the first quarter and 25 per cent fewer in the second quarter). UNICEF Ukraine issued a directive in July 2022 requiring all staff to return to their duty stations in line with the UN's 'Stay and deliver.'

The audit assessed the mechanisms in place to ensure the Country Office has the right skills in place at national and sub-national levels and that there is sufficient training and knowledge sharing to enable adaptability to changes in contexts and foster joined-up working.

Staffing structure: At the time of the audit, 66 per cent of the staff (163 of 249) were based in the country office in Kyiv and the remaining staff were assigned to field and satellite offices. Decentralization was noted as one of the five strategic priorities in the 2022 Annual Management Plan and the process was still ongoing at the time of the audit in March 2023. OIAI notes that centralized structures, particularly in emergencies, can be less responsive to contextual risks and challenges. This is especially true in Ukraine, where the context in the eastern regions differs greatly from the western regions.

Seventy per cent of the Country Office staff (173 of 249) are on fixed-term contracts (FTs). Based on the recommendation of the Technical Review Team and on approval of the Programme Budget

Review,[11] the Country Office and the Regional Office decided to use FTs because as the humanitarian response scaled up, the Country Office had to compete with other humanitarian actors for staff. The Country Office also indicated that affordability had been assessed and the overhead cost in UNICEF Ukraine at the time was below 15 per cent. OIAI acknowledges that fact, but also notes that in considering the short-term nature of emergency funding, changing priorities or an unexpected decrease in funding, FTs are a more expensive resource and harder to scale down, which may jeopardise the sustainability of the Country Office's structure in the long run.

Surge deployments: To meet the immediate needs of the emergency response, UNICEF Ukraine made use of surge deployments mobilized internationally, through the surge deployment mechanism operated by EMOPS under the Level 3 mechanism, the Regional Office, and the Standby Partnership Network. The Country Office informed OIAI that there were challenges in getting 90-day surge deployments and that it had to settle for a 60-day rotation. Staff expressed concerns regarding the use of shorter-term surge staff, specifically noting that the continued need to upskill new surge staff was not commensurate with the value attained from their short stay in-country.

AGREED ACTION

The Country Office agrees to regularly review the flexibility and affordability of the staffing structure and adjust as needed, in line with changes in the emergency response.

Staff Responsible: Representative
Implementation Date: 30 September 2023

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5. Knowledge transfer and documentation in emergencies   Medium

Knowledge management and transfer is essential to enable staff working on the response to have a clear understanding of the actions they need to take, lessons learned to date and the implications of those lessons. A handover process facilitates knowledge transfer and ensures accurate, reliable communication of task-relevant information within and between teams. This is even more pertinent for surge deployments and temporary assistance staff. The audit team noted gaps in documentation, communications and collaboration among teams in this regard, with knowledge handover done, in some instances, via individuals' emails.

In emergencies, international staff are entitled to one week of rest and recuperation every four weeks, and national staff take Special Emergency Compressed Time Off (SECTO)[12] every eight weeks. With these regular breaks, there is constant movement within sections and teams, reinforcing the need for better knowledge management, documentation and streamlined handover processes. In the absence of structured knowledge management and handover

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[11] Programme and Budget Review (PBR) is a strategic advisory body convened to facilitate the alignment of resources, structures and strategies to ensure successful implementation of the UNICEF Strategic Plans. The PBR is supported by the Technical Review Team (TRT), whose main objective is to conduct a thorough review of all budget and post change submissions by offices and make objective observations and recommendations to the PBR.

[12] One week off (five working days) not charged to annual leave granted after a continuous period of eight weeks worked on a compressed work schedule (in other words, working an extra hour per day for the period of eight weeks).

processes, individual email communication/collaboration can create a single point of failure for knowledge management.

Documenting key decisions, changes and communications only via emails can create information silos and result in knowledge loss or gaps, especially when the individuals involved leave the office or organization.

> ## AGREED ACTION
>
> The Country Office agrees to mainstream knowledge management and documentation by instituting the use of collaboration platforms such as SharePoint or other knowledge-sharing platforms to streamline handover processes and ensure institutional memory is maintained.
>
> **Staff Responsible:** Chief of Communication and Chief of Evaluation
> **Implementation Date:** 30 September 2023

6. Management of risk in cash transfers — Medium

The Country Office disbursed large sums of direct cash transfers (DCTs) and supplies to partners, mostly new, that it assessed as high risk to implement UNICEF interventions, without putting in place commensurate measures to effectively manage the heightened risks of working with those partners.

The number of Country Office implementing partners increased significantly, from 46 partners (43 CSOs and 3 government partners) in 2021 to 95 partners (64 CSOs and 31 government partners) as of March 2023. Of the 95 partners, 60 of them (63 per cent) were new partners that had not worked with UNICEF previously. OIAI assessed the adequacy and effectiveness of the measures put in place to manage the risk of working with implementing partners, including risks to the intended use of cash and supplies provided to the partners, fraud, and non-implementation of activities as agreed.

UNICEF HACT framework requires offices working with partners that are assessed as high risk to utilize low-risk payment modalities such as direct payment of vendors or reimbursement of the partners' expenses incurred with respect to implementation of pre-authorized activities. For significant and high-risk partners, offices should use direct payment of partners' vendors for large purchases of goods or services, reimbursement of partners for expenses incurred, or a blend of reimbursements, direct payments, and DCT – the latter being the high-risk payment modality. If DCT is used, the office should implement additional risk mitigating measures, such as requiring a Statement of Expenditures at the time of reporting and conducting a spot check prior to further disbursement.

Without putting in place and implementing commensurate mitigating actions, the Ukraine Country Office transferred US$45.8 million to implementing partners under the DCT modality during the period January 2022 to February 2023. Twenty-four per cent of that amount (US$10.9 million) was transferred to 49 high-risk partners (including 40 new partners). Additionally, the audit team observed that most of the necessary assurance activities (i.e., programmatic visits, spot checks and audits) were delayed. The audit team's review of a sample of 10 high risk partners, who received DCTs totalling US$ 8.7 million, noted that only 10 of the 24 planned programmatic visits

were completed. Delays in the performance and inadequate coverage of assurance activities may preclude the Country Office from promptly identifying and taking appropriate measures to manage risks.

> ## AGREED ACTION
>
> The Country Office agrees to periodically assess the adequacy of mitigating measures put in place with respect to high-risk partners, and improve those measures as necessary, to strengthen the management of risk to effective implementation of interventions and intended use of resources entrusted to implementing partners.
>
> **Staff Responsible:** Risk and Compliance Manager
> **Implementation Date:** 30 November 2023

7. Programme monitoring	Medium

The Country Office put in place different monitoring mechanisms. However, it did not develop structured monitoring plans and accountabilities, which resulted in gaps in the monitoring activities in areas such as supplies, cash distribution and end-user monitoring. This could impede the timely adaptation of activities and the efficacy of the response.

Monitoring and evaluation were recognized as critical components, and as such the Country Office established the necessary modalities to monitor programme implementation (e.g., HACT Programmatic Visits, field visits and third-party monitoring). The audit team reviewed the systems in place to ensure the Country Office had the appropriate mechanisms to provide sufficient high-frequency data on its planned outputs, the quality of programmes, and bottlenecks, in order to ensure timely adaptation of activities and an effective response. OIAI noted the following:

Programme monitoring: In the first stages of the emergency, the Country Office monitored the programme through HACT programmatic visits and had an institutional contract for Third Party Monitoring (TPM). However, one year from the onset of the humanitarian response, there was no monitoring strategy or plan that brought together all the monitoring activities to ensure sufficiency in terms of coverage, timing and purpose. The audit team also noted:

- Field monitoring at community and service point levels focuses on inputs, activities and outputs. The Country Office consolidated the data for those in the InForm database. [13] However, it was unclear how the follow-up on findings was performed. The PMR section prepared a consolidated report every month, but that report did not specify how issues of concern should be reported on or articulate how to address them.

- In a volatile security context, rapid access to any newly accessible areas needs to be assured. The Country Office prepared a plan that recognized the challenges of monitoring in such newly accessible areas. At the time of this audit, no specific actions on how to address those monitoring challenges had been identified.

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[13] InForm provides UNICEF and partners with a turnkey solution for field-based data collection for rapidly conducting surveys, including collection, storage, management and visualization

- Coordination on what needs to be monitored, by whom, and how needs to be improved. There was no mapping of the different monitoring and evaluation (M&E) activities. Therefore, there was no way of identifying potential redundancies or gaps in what was being monitored. The Country Office stated that an M&E working group had been established and the M&E accountability matrix was being worked on. The matrix would outline accountabilities for M&E and help better coordinate and streamline M&E activities.

Distribution and end-user monitoring: During the period January 2022 to February 2023, the Country Office distributed supplies (e.g., hygiene kits, educational material, generators, etc.) across the country, through 1,026 different partners and other consignees, and used TPM to validate the distributions. However, the audit team found that in a sample of nine consignees, four were never monitored, neither was there evidence that targeted recipients were subjected to a check. More specifically, from a sample of US$18.9 million worth of supplies consigned, US$8.4 million (44 per cent) was not subjected to any monitoring checks.

There were questions on the sufficiency of the TPM's coverage and timeliness. For example, the first TPM activities were finalized at the end of February 2023, although Country Office field visits had identified issues such as a consignee that had distributed less than 40 per cent of supplies; boilers that were installed or boilers installed but not connected; and untimely distribution of school materials. The Country Office also distributed assistance in the form of cash to schools, but at the time of the audit, the TPM still was ongoing and therefore had not yet verified whether the cash was used for the intended purpose.

The Country Office acknowledged that at the time of the audit it was still in the process of drafting a programme monitoring matrix/strategy to clarify what needs to be monitored and by whom. The Country Office was also working on refining the HPM indicators to improve the quality of programme monitoring. That said, it is important to note that any gaps in programme and field monitoring represent a programmatic risk that could negatively impact the response.

AGREED ACTIONS

The Country Office agrees to:
  i.   Finalize the monitoring plan and develop a programme monitoring and accountability matrix that encompasses all monitoring activities (HACT, EUM, etc.) to ensure sufficiency in terms of coverage, timing and purpose.

  ii.   Use digital corporate tools to document, collate and analyse all monitoring activities and the follow up on significant findings.

Staff Responsible: Chief, Planning, Monitoring & Reporting
Implementation Date: 30 September 2023

8. Prevention of Sexual Exploitation and Abuse   Medium

At the time of the audit, the Country Office had not yet structured how information from all relevant SEA data sources would be collated and communicated to the PSEA team and used to adequately document any action points and follow-up. Without this information, the Country Office

may not be able to determine whether the risk of SEA is appropriately mitigated and/or whether partners are well equipped to prevent and respond to SEA.

Sexual exploitation and abuse (SEA) is a real and current risk in the Ukraine emergency, as it is with most armed conflicts. There are numerous instances of family separation, with women and children travelling alone, and increased cases of gender-based violence at transit points and in shelters. As stated above, the Ukraine Country Office had a large number of implementing partners with no prior experience working with UNICEF. The audit team assessed the adequacy of the measures in place for the management of SEA risks.

The Country Office developed and implemented a PSEA 2022 action plan that prioritised PSEA assessment of CSOs and PSEA capacity building of staff and the CSOs. However, at the time of the audit, the plan had not been fully implemented and no PSEA assessment had been completed. By the end of March 2023, of 36 active implementing partners (IPs), only two were in the process of the PSEA assessment. Delaying the strengthening of IP's PSEA-capacities means that the risk levels assumed might not be commensurate with UNICEF's zero tolerance to SEA.

The Country Office did take steps toward strengthening PSEA monitoring. For example, the HAC PSEA indicator was included in humanitarian programme documents, and at the time of the audit, the Country Office incorporated PSEA monitoring activities in templates used by staff and third-party monitors. However, the audit team noted that there was a lack of clarity about how SEA-related data would be collated and communicated to the appropriate accountable office for action and reporting. Follow up was insufficient, as action points from PSEA monitoring were not well documented. More systemic monitoring of SEA risks would increase the Country Office's ability to identify gaps in PSEA and to take corrective actions.

AGREED ACTIONS

The Country Office agrees to:
  i.   Implement appropriate mechanisms for the collation and analysis of PSEA data and use the results of analyses to inform the PSEA action plan and measures.

  ii. Follow a risk-based approach to plan the re-assessment of the CSOs with medium capacity, appropriate with organizational risk tolerances on SEA risks.

Staff Responsible: Chief of Operations, Chief, Planning, Monitoring & Reporting, and PSEA Focal point
Implementation Date: 31 December 2023

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9. Accountability to Affected Populations   Medium

The Country Office did not fully leverage unified feedback mechanisms for Accountability to Affected Populations (AAP) across Ukraine. Lack of integrated feedback mechanisms could have a negative impact on UNICEF's commitment to accountability and transparency to the most vulnerable.

UNICEF is committed to putting affected populations, including children, women, and the most vulnerable groups, at the centre of its work. AAP aims to ensure interventions are informed by the

views, participation and feedback from communities. Country offices need to ensure there is timely consultation and participation of affected populations in the design and implementation of programmes and emergency responses. The significance of AAP is articulated in the HACs (April and November 2022) and the Ukraine response plan.

The audit team assessed the adequacy of the integration of AAP principles into the Ukraine Country Office response and availability of feedback mechanisms.

AAP strategy: The AAP approach was developed in March 2022 as a part of the Country Office humanitarian response plan. The Country Office subsequently adapted the AAP approach into a strategic note. However, the audit team noted that AAP indicators were not consistently included in programme documents. This was mainly because the Country Office had not effectively communicated the strategy and approaches or required relevant staff to mainstream the approach in interventions. For example, at the time of the audit, the AAP approach had not yet been cascaded to sections and field offices where programme documents are developed and agreed with partners. The AAP focal points in the field offices indicated that they were aware that an AAP strategy existed but indicated that they had not received a copy of the document for input and operationalization. The audit team's review of TPM reports also noted comments regarding understanding needs such as the need to conduct a preliminary assessment of the needs of institutions/organizations for a particular type of assistance, or the need for targeted coherence and tools to understand the needs before aid distribution. The AAP strategy refers to cross-section coordination on AAP aimed at ensuring a consistent approach. However, there was no evidence on how this was achieved. Not integrating AAP indicators in programme documents could impact UNICEF commitments to accountability and transparency and limit the Country Office's ability to reach the most vulnerable.

Feedback mechanisms: The Country Office employed various digital tools to solicit feedback and provide information to the affected population, including KoBo forms, assessment surveys, Spilno Child Spots, social media channels, print material, TV and radio. A call centre/hotline was used for HCT programmes, but at the time of the audit the Country Office was not fully leveraging the hotline as a community-based feedback mechanism. The Country Office indicated it was in the process of establishing a long-term agreement (LTA) for hotline services to enable scaling of a unified feedback mechanism. There was also lack of clarity about how feedback from the different data sources is collated, analysed and utilised to inform and improve quality of programmes. Disparate information from varied sources, if not collated, could limit quality of analysis and the timely closing of the feedback loop for the programmes.

AGREED ACTIONS

The Country Office agrees to:
  i.   Develop and implement evidenced-based, context-specific processes for consultation and participation of affected populations, including mechanisms for collating the views of affected populations with respect to interventions and responses that would impact on their lives as well as documenting those views and how they are reflected in organizational decisions.

  ii. Put in place and implement appropriate processes to ensure that: AAP activities and indicators are systematically included programme and partnership documents; there is consistency in the application of AAP approach across all sections; AAP is regularly included as one of the priority agenda items of the Country Management Team.

10.	**Fraud risk management**	**Medium**

It is important to periodically assess how well preventative fraud mitigating measures are working. The Country Office did not have clear mechanisms to monitor fraud indicators and to assess the effectiveness of preventative measures in place.

In a fluid and challenging landscape such as in Ukraine's, where staff, processes and the environment constantly change, certain mitigating actions may no longer be effective. The audit sought to determine whether controls over the fraud risk control environment were adequate to ensure the Country Office has appropriate activities in place to deter, detect and report on fraud.

Fraud risk indicators: The Ukraine partnership team undertook fraud training for implementing partners. In August 2022, the Country Office drafted its Anti-Fraud Plan; however, the audit team did not see any evidence that the plan included process-specific fraud risk assessments for significant, high fraud risk activities/processes. This is noteworthy given the significant increase in funding, staff and implementing partners during the period under review. OIAI expected to see efforts to identify, monitor and mitigate specific fraud risk indicators and potential fraud schemes for significant processes such as partnerships and supplies.

Potential conflicts of interest: UNICEF's Financial Disclosure and Declaration of Interest procedure requires staff members to disclose actual and potential conflicts between their personal interests and those of UNICEF to their Head of Office and the Ethics Office. This becomes even more pertinent in the Ukraine context given challenges in the local market, the sudden increase in value of transactions, delegated authorities of individual staff, and the high rate of new staff hires and turnover. At the time of the audit, the Country Office had not updated the list of staff required to file the disclosure statement. Therefore, senior staff and staff that were assigned key tasks where potential conflict of interest might occur (such as procurement, cash transfers, etc.) did not file the financial disclosure statement either at the time of their appointment or by the time of the audit in March 2023.

Risk Appetite: As noted in the preceding observations, there was lack of a clearly defined risk appetite and tolerances for the unique risks the Country Office faced in Ukraine during the period under review. These included political risks, partnership risks, and supply chain risks compounded by gaps in internal fiduciary controls such as bank reconciliations, financial and conflict disclosures, and delegated authority. Further, there was no clear articulation of what 'no regrets' meant in the Ukraine context, how that impacts the Country Office's risk tolerances and therefore what mitigation actions it needs to put in place or what emerging risks need to be escalated. The audit team also found that the Country Office placed a high reliance on detective controls rather than preventative controls. A heavy reliance on detective controls can expose the organization to errors or irregularities, which even when detected, may not be recovered.

AGREED ACTIONS

The Country Office agrees to:

i. Revise the Country Office's Anti-Fraud Plan to ensure that fraud risk assessments whenever necessary are conducted. Using the results of the assessments, develop mechanisms such as the monitoring of red flags and exceptions to enhance anti-fraud activities and strengthen the fraud-risk response.

ii. Institute measures to ensure senior staff and staff that are assigned key tasks (such as procurement) are required to file the disclosure statement upon appointment; regularly review the list of staff who need to file the disclosure statement.

iii. In consultation with the Regional Office and Chief Risk Officer, determine the Country Office's risk appetite, tolerances and mitigants to be implemented for significant processes and activities.

Staff Responsible: Representative, Chief of Operations and Risk & Compliance Manager
Implementation Date: 31 December 2023

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.

Office of Internal Audit and Investigations

3 United Nations Plaza, East 44th St.
New York, NY 10017
www.unicef.org/auditandinvestigation

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