



INTERNAL AUDIT DIVISION

AUDIT REPORT

UNHCR arrangements for managing its participation in the Sudan Common Humanitarian Fund

UNHCR needs to improve the arrangements for support and coordination by strengthening Headquarters and field structures and capacity

24 May 2010

Assignment No. AR2009/115/04

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

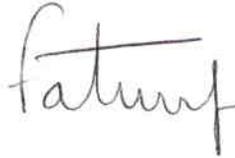
OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Mr. Antonio Guterres, High Commissioner
A: Office of the United Nations High Commissioner for
Refugees

DATE: 24 May 2010

REFERENCE: IAD: 10- **00409**

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AR2009/115/04 – Audit of UNHCR arrangements for managing its
OBJET: participation in the Sudan Common Humanitarian Fund**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 2, 4 to 7, 9 to 13 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1, 2, 3, 4 and 6), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. T. Alexander Aleinikoff, Deputy High Commissioner, UNHCR
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INTERNAL AUDIT DIVISION

FUNCTION

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EXECUTIVE SUMMARY

Audit of UNHCR arrangements for managing its participation in the Sudan Common Humanitarian Fund

The Office of Internal Oversight Services (OIOS) conducted an audit of the Office of the United Nations High Commissioner for Refugees' (UNHCR's) arrangements for managing its participation in the Sudan Common Humanitarian Fund (CHF). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls established by management to address risks relating to: (i) the governance arrangements put in place by UNHCR to manage its participation in the Sudan CHF; (ii) the role of UNHCR as the Regional Focal Point and co-lead for the protection and human rights (PHR) sector in the Sudan CHF; and (iii) the project management arrangements put in place by UNHCR in relation to the Sudan CHF. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The CHF is a mechanism where fundraising is mingled with the other developments that have come with humanitarian reform, such as the cluster approach and stronger need for inter-agency coordination. It has become a valuable strategic tool for the Humanitarian Coordinator and the humanitarian community to prioritize humanitarian activities. However, UNHCR had not evaluated whether it had the structures and capacity at Headquarters to adequately support and coordinate UNHCR's various roles and responsibilities under the CHFs in the countries where they have been established.

OIOS assessed that the local arrangements for the management of UNHCR's participation in the Sudan CHF are also in need of strengthening. While UNHCR has been coping with the inherent challenges posed by the Sudan CHF, the efforts lacked direction, came at a very high cost and involved frequent changes in structural arrangements. With the imminent changes in the UNHCR staffing involved in the Sudan CHF and the recent modifications in the prioritization and allocation model of the Sudan CHF, several risks remain to be addressed by the UNHCR Representation. The key audit findings, which UNHCR has acknowledged and taken prompt action in addressing, were as follows:

Local governance arrangements

- UNHCR should develop a local fundraising strategy for its operations in Sudan to ensure that sufficient resources are available to fund core protection activities that cannot be funded through the Sudan CHF.
- UNHCR needs to put in place adequate staffing arrangements and an organizational structure in the Representation in Sudan that enables it to manage its participation in the Sudan CHF effectively and in a consistent manner, while keeping the related staffing costs at an acceptable level.

Role of UNHCR as the Regional Focal Point and co-lead for the protection and human rights sector

- There is a need for the UNHCR Representative in Sudan to set the tone and communicate the message to staff whether UNHCR should primarily be a fundraiser or a sector coordinator in the PHR sector in the Sudan CHF that it co-leads.
- UNHCR should assume responsibility for monitoring the implementation of the CHF-funded projects that fall under its sector co-lead duties and, in coordination with its partners in the PHR sector, develop a suitable monitoring framework.

Project management arrangements

- UNHCR is only partially compliant with the project management requirements of the Sudan CHF. However, full compliance in terms of project planning and reporting could not be assessed by OIOS as the audit trail was in many cases missing.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Office of the United Nations High Commissioner for Refugees' (UNHCR's) arrangements for managing its participation in the Sudan Common Humanitarian Fund (CHF). This audit was conducted in coordination with the internal audit services of UN agencies participating in the CHF for Sudan and in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The CHF is a mechanism whereby the donors pool their funds for a coordinated response to humanitarian needs in a given country. CHFs have been established in Sudan, the Democratic Republic of the Congo and the Central African Republic, and plans exist to introduce it in Somalia in 2010.

3. The Sudan CHF was established as a pilot programme in 2005 by a number of donors and UN agencies as a mechanism for donors to contribute general-purpose funds to the annual UN and Partners Work Plan for Sudan (Work Plan). The Sudan CHF became fully operational in 2006 and the UN agencies and NGOs (collectively, "the participating organizations") can access the pooled funds for their respective projects in the Work Plan, which includes humanitarian, recovery and development programmes to be undertaken in Sudan. Preparation of the Work Plan is a collaborative effort among UN agencies, NGOs, and Sudanese national, regional and local authorities (the Work Plan partners). The Work Plan for 2006 to 2009 was divided into eight regions (Abyei, Darfur, South Sudan, South Kordofan, Khartoum, Eastern States, Blue Nile, and National Programmes) and 13 sectors (basic infrastructure; education; health; protection and human rights (PHR); mine action; cross sector support for return; common services; water and sanitation; food security; non-food items (NFIs) and emergency shelter; common services coordination; disarmament, demobilization and reintegration; and governance and rule of law). The Humanitarian Coordinator for Sudan is responsible for the overall development, implementation and monitoring of the Work Plan.

4. The main objective of the Sudan CHF is to give the Humanitarian Coordinator greater ability and flexibility in targeting funds to the most critical needs and allowing rapid response to emergencies. Participating organizations in the various sectors and regions compete for the allocation of CHF funds for the implementation of their respective projects in Sudan by submitting project proposals to the Humanitarian Coordinator. All project proposals must be in line with humanitarian and recovery and development priorities within each sector and region as agreed in the Work Plan. CHF funds are allocated to participating organizations based on a pre-established allocation model. The Humanitarian Coordinator is responsible for reviewing and approving all proposed allocations.

5. UNHCR is involved in the Sudan CHF in two capacities:

- As a participating organization, competing for CHF funds and implementing projects that are partially funded by the Sudan CHF. Projects implemented by UNHCR have included activities related to the
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return and reintegration of refugees, protection of refugees and internally displaced persons (IDPs), camp coordination and management, procurement of NFIs, food security, health and nutrition, and education; and

- As the Regional Focal Point in the PHR sector, appealing for CHF funds for Darfur, East Sudan and Khartoum, and simultaneously, as co-lead, together with the United Nations Mission in Sudan (UNMIS), at the central level for the PHR sector. As co-leads, both UNHCR and UNMIS are responsible for the activities of the PHR sector in the entire country.

6. UNHCR is also a member of the Sudan CHF Advisory Group, a group established to review and advise the HC on proposed allocations to participating organizations, policy guidelines and other issues related to the operations of the Sudan CHF.

7. Total donor contributions to the Sudan CHF from 1 January 2006 to 31 December 2009 were approximately \$595 million. Of that amount, approximately \$41 million (seven per cent) was allocated to UNHCR. Since the inception of the Sudan CHF in 2006, UNHCR has implemented 79 projects funded by the CHF in ten sectors throughout Sudan. Forty-eight (61 per cent) of these projects, with total CHF funding of approximately \$25 million (61 per cent of total allocations to UNHCR), were in the PHR and Cross Sector Support for Return sectors. Projects implemented in these sectors focused on protection activities, finding durable solutions for refugees and asylum seekers in Sudan and support for the return and reintegration of refugees and IDPs.

8. Participation in the Sudan CHF requires a multitude of tasks, including preparing project proposals, attending various regional and sector allocation meeting, and fulfilling reporting requirements. In order to effectively compete for the CHF funds, UNHCR has established an extensive field presence to participate in meetings and report on its activities in the five regions and 10 sectors in which it operates. Staff members in the Protection, Programme and Communications and Information units respectively are performing these tasks, in addition to other programmatic and substantive activities.

9. Comments made by UNHCR are shown in *italics*.

II. AUDIT OBJECTIVES

10. The main objective of the audit was to assess the adequacy and effectiveness of internal controls established by UNHCR management to address risks relating to :

- (a) Governance arrangements for managing its participation in the Sudan CHF;
- (b) The role of UNHCR as the Regional Focal Point and co-lead for the PHR sector in the Sudan CHF; and

(c) Project management arrangements in relation to the Sudan CHF, including:

- i. Planning for project submissions for request of funds;
- ii. Monitoring mechanisms for the achievement of objectives identified in the project submissions; and
- iii. Reporting to the Humanitarian Coordinator in Sudan.

III. AUDIT SCOPE AND METHODOLOGY

11. The audit took place in February 2010 and mainly covered the period from 1 January 2008 to 31 December 2009, including CHF allocations received by UNHCR amounting to \$13.6 million. Due to inadequate record maintenance to support project planning and reporting during 2008 and 2009, the audit scope was expanded to cover selected 2007 transactions.

12. The audit reviewed and assessed internal controls implemented by UNHCR to manage its participation in the Sudan CHF. The audit methodology comprised: (a) interview of selected staff members; (b) detailed transaction tests; and (c) analysis of relevant records at both the Representation Office in Khartoum and the sub-office in South Sudan.

13. A sample of projects that received CHF funding were selected for detailed review in terms of: project planning and budgeting; project monitoring; financial and narrative reporting to the Sudan CHF administrative agent, programmatic manager and donors; and monitoring and audit of implementing partners. OIOS did not review project-specific personnel management and procurement records, as UNHCR's actual implementation of activities was at the programme level and there was no separate tracking of activities at the CHF project level (see paragraph 48 below). However, partial assurance was obtained from the results of a prior OIOS audit report on UNHCR operations in South Sudan (AR2009/115/1) dated 13 October 2009. This audit had reviewed UNHCR sub-projects 08/SUD/RP/330 and 08/SUD/RP/334, from which a number of CHF projects were derived.

14. OIOS also assessed, through interviews and available documentation, the role of UNHCR Headquarters in providing support and coordination to the field in respect of the CHF's in general, and the Sudan CHF in particular.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Global governance arrangements

Need for UNHCR to review and align its organizational structures and capacity at the Headquarters to ensure that it is able to cope with and handle its various roles and responsibilities under the CHF implemented in different countries

15. CHF is a complex mechanism where fundraising is mingled with the other developments that have come with the humanitarian reform, such as the increased need for inter-agency coordination and the cluster approach. In essence, CHF has become a valuable strategic tool for the Humanitarian Coordinator and the humanitarian community to prioritize humanitarian activities. CHF is therefore not a voluntary mechanism, where UNHCR may choose or not to participate. Absence or limited involvement may be perceived by the other humanitarian actors and donors as UNHCR not wanting to join them in the collective effort to address the humanitarian needs in a given country.

16. UNHCR has recognized that the emergence of Humanitarian Pooled Funds, such as the CHFs, has indeed presented new fundraising opportunities which have increased the role of UNHCR field offices in actively conducting fundraising at the local level. To better assist the field offices in their fundraising activities through these funds, UNHCR now has one staff member in the Donor Relations and Resource Mobilization Service (DRRM) of the Division of External Relations (DER) supporting the field in their dealings with the Central Emergency Response Fund (CERF) and the CHFs. However, as mentioned above, UNHCR's participation in the CHFs goes beyond fundraising and the support from DER, and touches upon the functional responsibilities of many of UNHCR's other specialist divisions, as well as the Regional Bureau for Africa at Headquarters. UNHCR's roles and responsibilities under the CHFs include protection cluster/sector lead functions; inter-agency coordination functions, as well as programmatic and financial planning, monitoring and reporting on the use of CHF funds received. The mixture of activities involved and the related skills set required are therefore extensive.

17. Based on the above and the issues discussed later within this report, OIOS is of the opinion that a holistic approach is required to assess the structures and capacity that need to be put in place to ensure UNHCR's effective participation in the CHFs as a whole, taking into account the various roles and responsibilities that UNHCR has in the process. UNHCR should evaluate its capacity, skills and impact in undertaking the multitude of CHF-related activities in the countries where CHFs have been established. On the basis of such an evaluation, consideration should be given to strengthening the organizational structures and capacity at Headquarters to provide support and coordination to the field.

Recommendation 1

(1) The UNHCR Administration should make an assessment to determine the organizational structures and capacity at Headquarters that are required to be put in place to ensure that the Office effectively manages its participation in the Common Humanitarian Funds (CHF) in different countries, given the various roles and responsibilities that UNHCR has to fulfil in terms of the CHF.

18. *UNHCR accepted recommendation 1 and stated that UNHCR Headquarters (DRRM) is actively involved in all policy level activities covering CHFs and provides regular guidance to the field colleagues. CHFs are field based funding mechanisms and Headquarters provides assistance as and when needed. DRRM is currently covering all Multi-Donor Trust Funds (MDTFs), including CHFs, and other inter-agency funding mechanisms and is providing training on field based resource mobilization opportunities including special attention to CHFs.* OIOS acknowledges the response provided by UNHCR but points out that a more holistic approach to the management of CHFs is required, as stated in paragraphs 16 and 17 above. Focusing only on the fundraising and resource mobilization aspects will not give UNHCR a portfolio view of the risks and related control mechanisms pertaining to CHFs. Recommendation 1 remains open pending completion of an assessment to determine the organizational structures and capacity at Headquarters that are required to be put in place to ensure that the Office effectively manages its participation in the CHFs in different countries.

B. Local governance arrangements

Need for the UNHCR Representation in Sudan to develop a local fundraising strategy to ensure that sufficient resources are available to fund core protection activities that cannot be funded through the CHF

19. Previous evaluation reports of the Sudan CHF process have shown a decrease in bilateral contributions as a direct result of the introduction of the Sudan CHF, as competition for funds among agencies has intensified. To address the issue, UNHCR management in Sudan has recognized the need to increase opportunities for bilateral donor relations through field missions, detailed briefings and regular contacts and to develop a comprehensive local fundraising strategy.

20. The attached table shows the evolution in UNHCR's funding from various sources for the Sudan operations between 2006 and 2009. As can be seen from the table, UNHCR's fundraising income from all non-private sector donations has dropped almost 23 per cent from 2006 to 2009. At the same time, the income from the Sudan CHF has dropped over 63 per cent. Many of the previously key bilateral donors are now channeling funds through the CHF. Most notably the UK Department for International Development, which funds about 50

per cent of the Sudan CHF and has not provided any bilateral funding to UNHCR since the inception of the Sudan CHF.

Table 1: Overview of the evolution of UNHCR's funding for the Sudan operations 2006-2009

	2006	2007	2008	2009	Change 2006-2009 (%)
All governments and European Community, incl. Multi-Donor Trust Funds	\$91,281,050	\$63,815,263	\$97,947,590	\$70,431,031	-22.84%
Common Humanitarian Fund only	\$16,834,773	\$10,092,063	\$8,652,697	\$6,160,912	-63.40%

21. According to UNHCR officials interviewed, UNHCR is not receiving a larger share of the Sudan CHF allocations because it is not involved in life-saving activities such as food, water and sanitation, etc., which are given priority in the allocations. Its core activity, protection, falls under the PHR sector, which in 2009 received only five per cent of the total CHF funding (of which UNHCR's share was roughly 25 per cent). Since a large portion of the funding for protection work by UNHCR goes to staff costs, there is often resistance in funding this sector. Protection is also a politically sensitive area in Sudan and its impact is hard to demonstrate tangibly. Expansion in the number of NGOs has further reduced the funding base.

22. While the senior management in UNHCR Sudan has been talking about the need to strategically address the impact of reduced bilateral funding, especially on the core protection activities, there has been no action taken to concretely deal with this issue. UNHCR should develop a local fundraising strategy to compensate for the loss in bilateral fundraising income as a result of the introduction of CHF. Whereas CHF should be factored into the fundraising strategy as one source of potential funding, UNHCR's focus should be on identifying alternative sources of funding for its core protection activities, for which only limited funding from the Sudan CHF appears to be currently available.

Recommendation 2

(2) The UNHCR Representation in Khartoum, in consultation with the UNHCR Division of External Relations, should develop a local fundraising strategy for Sudan to ensure that sufficient resources are available to fund its core protection activities that cannot be funded through the Sudan Common Humanitarian Fund.

23. *The UNHCR Representation in Khartoum accepted recommendation 2 and stated that the Sudan Operation continues to pursue resource mobilization efforts in line with the guidance provided by the High Commissioner under IOM 005/FOM 006 dated 15 February 2010. Through close collaboration with the Africa Bureau and the Division of External Relations, the Sudan Operation*

continues to engage traditional donors to - as a minimum - maintain contributions at the same levels as 2009. At the country level, UNHCR continues to engage donor embassies and to participate actively in country-level resource allocation processes through the Sudan Work Plan and the CHF. It is worth noting that in 2010 UNHCR secured \$9.67million as compared to \$5.7 million and \$5 million in 2009 and 2008 respectively. The Representative recently conducted missions to Washington and New York to lobby decision makers and make contact with private donors. Missions to other donor capitals are foreseen. A concerted effort is being made to secure funds from non-traditional donors, including tapping into transitional and development sources to fund (re)integration-related activities, which constitute a significant proportion of the 2010 programme. Based on the actions taken and assurances provided by the UNHCR Representation in Khartoum, recommendation 2 has been closed.

Need for the UNHCR Representation in Sudan to revisit the arguments given to abolish three posts that have each played a key function in terms of UNHCR's management of the Sudan CHF activities in Khartoum and ensure that the respective roles and responsibilities will be carried out

24. The UNHCR Representation in Sudan has been coping with the inherent challenges posed by the Sudan CHF. However, the senior management in Sudan made a decision in 2009 to cut the following three posts in the Khartoum office without adequate consideration of the impact of these decisions on providing support to the Sudan CHF process:

- The post of Liaison Officer (P-3), the incumbent of which has been the CHF Focal Point in the Representation Office since January 2009, will be transferred to the Sub Office in Darfur in June 2010;
- The post of Senior Liaison Officer (P-4), the incumbent of which performed the duties of the CHF Focal Point for 6 months in 2008 and to whom the above-mentioned Liaison Officer currently reports on CHF-related responsibilities, will be cut in June 2010; and
- The post of Protection Officer (P-3), the incumbent of which had performed the duties of the PHR sector co-lead in the Sudan CHF, was abolished in October 2009.

25. The Representation is therefore facing a situation whereby by June 2010 it will have significantly reduced resources to manage its participation in the Sudan CHF, both in terms of the internal and external coordination and communication (CHF Focal Point) and the PHR sector co-lead functions. This comes at a time when the allocation process of the Sudan CHF is being re-centralized in Khartoum, as could be evidenced in the Policy Paper for the first CHF allocation round of 2010, which was recently approved by the Humanitarian Coordinator in Sudan. Whereas in 2009, the Sudan CHF prioritization and allocation decisions were done at the regional level in each of the eight regions, the 2010 model envisaged only two regional envelopes, North and South, allocated at the central level in Khartoum.

26. There is an urgent need to revisit the decision made to abolish the posts and assess the impact that the pending staffing vacuum would have on managing UNHCR's participation in the Sudan CHF. According to the officials interviewed, a number of options have already been considered for the CHF Focal Point function, ranging from reassigning the duties from the Communications and Information Unit to either the Programme Unit or the Protection Unit, or even trying to continue funding a post in the Communications and Information Unit. Similarly, for the PHR sector co-lead function, various temporary measures have been put in place since November 2009, for which the Representation agrees that a more permanent solution is required (refer also to paragraphs 40-42 below).

Recommendation 3

(3) The UNHCR Representation in Khartoum should revisit its decision to abolish the posts that have contributed significantly to managing UNHCR's participation in the Sudan Common Humanitarian Fund (CHF) or come up with alternative solutions to ensure that it has adequate staffing arrangements in place to discharge its CHF-related responsibilities.

27. *The UNHCR Representation in Khartoum accepted recommendation 3 and stated that the Representation Office has reinstated the Liaison Officer (P-3). The incumbent continues to act as the interface between different work units within UNHCR (Khartoum, Field, Headquarters) and external actors on the Work Plan and the CHF. Given the significant additional burden that sector lead responsibilities impose on protection staff, a provision has been made in the staffing submission for 2011 to establish two (P-4 and P-3) protection posts to deal specifically with inter-agency issues concerning IDPs, PHR, the Work Plan and Pooled Funding (including CHF). Similarly, an additional Programme Officer (P-3) position has been requested to enhance programme support capacity. However, until and unless the new posts are approved, the Office will continue to face constraints in effectively addressing the issues as mentioned in the recommendations. Recommendation 3 remains open pending the outcome of the posts requested in the 2011 staffing submission.*

Need to establish an organizational structure at the local level for managing UNHCR's participation in the Sudan CHF effectively and in a consistent manner, while keeping the staffing costs at an acceptable level

28. Organizational structure provides the framework within which activities for achieving objectives are planned, executed, controlled and monitored. Significant aspects of establishing a relevant structure include defining key areas of authority and responsibility and establishing appropriate lines of reporting. The structure should be developed according to the organization's needs.

29. According to the UNHCR Representation in Khartoum, the Sudan CHF is a common effort within the Office, with Protection, Programme and Communications and Information units all playing their respective roles, while

senior management also participates in CHF meetings and monitors the overall process. Senior management in Sudan has also recently recognized that regardless of the organizational position of the CHF Focal Point function, it would have a direct reporting line on the CHF matters to the Deputy Representative.

30. However, the local organizational structure for managing UNHCR's participation in the Sudan CHF has lacked consistency as it has been subject to frequent changes ever since its inception. More changes are in the pipeline, as a result of imminent staff departures. Effective involvement in the Sudan CHF is also very labour-intensive, which UNHCR itself has continuously reaffirmed. According to its own calculation, the total cost of its participation in the Sudan CHF in terms of staff resources amount to several hundreds of thousands of US dollars annually (combined with the involvement in the related Work Plan process, the total cost was estimated by UNHCR at \$901,672).

31. If the structural arrangements for the management of UNHCR's participation in the Sudan CHF are not well designed, the respective roles and responsibilities may become unclear, and coordination and communication between UNHCR sections and offices, on the one hand, and with external CHF counterparts, on the other hand, may also suffer. There is therefore a critical need for the Representation to factor the CHF related responsibilities into its organizational design in a way that enables it to discharge these responsibilities effectively and in a consistent manner. Management will also have to consider the staffing costs of managing its participation in the Sudan CHF and, therefore, any structural re-arrangements made will need to take into account the potential for streamlining activities in such a way that it optimizes cost-efficiencies at a level acceptable to management.

32. A formal organigramme should then also be developed, showing the staff members involved in the process in each of the Units in Khartoum and the Sub-offices and their respective reporting lines as they pertain to CHF-related responsibilities. With the frequent changes in staff due to Sudan being a country where the standard assignment length is only two years, the organigramme should be updated and communicated to staff regularly.

Recommendation 4

(4) The UNHCR Representation in Khartoum should establish an organizational structure to manage its participation in the Sudan Common Humanitarian Fund in a way that allows it to discharge its responsibilities effectively and in a consistent manner, while keeping the staffing costs at an acceptable level, and develop an organigramme that is communicated to all staff.

33. *The UNHCR Representation in Khartoum accepted recommendation 4 and stated that the organizational structure has been reviewed starting with the division of labour at the Executive Office level wherein the Representative is in charge of donor relations and resource mobilization while the Deputy*

Representative supervises the overall resource management and budget control functions. Due to the cross-cutting nature of CHF allocations, staff are drawn from different work units (executive, programme, protection, communication and technical) to deal with different facets of the allocation process. Content of submissions is provided by the relevant field office and/or functional unit. During the 2010 first round CHF allocation, multi-functional teams were formed to handle the allocation process as a pilot approach, with positive results. As a result, the multi-functional approach will be retained and refined as needed for subsequent allocation processes. Based on the action taken and explanation provided by the UNHCR Representation in Khartoum, recommendation 4 has been closed.

Requirements for the assessment of staff performance for CHF-related responsibilities need to be addressed

34. In order to provide a basis for performance assessment, the roles and responsibilities of staff should be clearly identified in their job descriptions and associated work plans. Despite the extensive involvement of some of the staff members in the Sudan CHF process, OIOS identified only one staff member whose job description reflected the related responsibilities. This could undermine accountability of relevant staff for the achievement of the objectives relating to the management of UNHCR's participation in the Sudan CHF.

Recommendation 5

(5) The UNHCR Representation in Khartoum should ensure that staff members with extensive involvement in the Sudan Common Humanitarian Fund have the related responsibilities reflected in their job descriptions and individual work plans in order to provide a reliable basis for performance assessments.

35. *The UNHCR Representation in Khartoum accepted recommendation 5 and stated that the transformation of the fundraising landscape has resulted in increasing demands for the active involvement of virtually all functional units in resource mobilization activities. As such, in addition to strengthening capacity and reorganizing work processes, the office is developing guidelines to explain roles regarding internal and external programme management and resource allocation procedures along with related in-house support functions. Managers are required to reflect related responsibilities in unit work plans so that staff may in turn incorporate them in the performance appraisal process. It is worth pointing out that job descriptions in UNHCR are generic and do not make provision for explicit reference to relations with institutions like the CHF. Based on the explanation and assurances provided by the UNHCR Representation in Khartoum, recommendation 5 has been closed.*

C. Role of UNHCR as Regional Focal Point and co-lead for the PHR sector

Role that UNHCR should play as the PHR sector co-lead in the Sudan CHF should be internally defined and clearly communicated

36. Being the co-lead for the PHR sector requires UNHCR to assume two functions in the Sudan CHF. On one hand, UNHCR will have to abide by its responsibilities as global cluster/sector lead, in accordance with the Inter-Agency Standing Committee (IASC) Guidance Note on Using the Cluster Approach to strengthen Humanitarian Response, and be accountable to the Humanitarian Coordinator in Sudan. On the other hand, as a participating organization of the Sudan CHF, UNHCR is competing for the allocation of funds from the CHF, which, according to the UNHCR Fundraising Strategy, is considered an important funding mechanism for UNHCR. Although CHF represents a relatively small percentage of total UNHCR fundraising income in Sudan, especially for the protection activities, staff members have felt that they had an obligation to seek funding from every possible source and at every opportunity. There is the perception of “involuntarily penalizing your own organization” if this principle is not followed in relation to the CHF.

37. There is great potential for conflict of interest if UNHCR is overly ambitious and aggressive on the fundraising table while compromising its responsibility to include and ensure appropriate coordination with all key humanitarian partners in the PHR sector. Based on OIOS’ discussions with the officials interviewed, staff feel torn in opposite directions without knowing what is the senior management vision on the matter, leading them to make their own interpretations of what should be the right course of action. The message has not been clearly articulated and with different representatives, the interpretations have varied.

38. The UNHCR Representative in Sudan, in consultation with the Regional Bureau for Africa and DRRM at Headquarters, should give purpose and direction to what UNHCR’s primarily role or roles in relation to the Sudan CHF should be, in terms of its sector co-lead role, and communicate it to staff members dealing with the PHR sector in the Sudan CHF. Setting this message is an important element of creating the right understanding of and commitment to the CHF process throughout the Representation in Sudan.

Recommendation 6

(6) The UNHCR Representative for Sudan should determine and communicate to staff whether UNHCR should primarily be a fundraiser or a sector coordinator in the protection and human rights sector that it has taken responsibility for to co-lead as part of the Sudan Common Humanitarian Fund.

39. *The UNHCR Representative for Sudan accepted recommendation 6 but stated that it is not possible to avoid the dual responsibility, as the processes are*

intricately interlinked. The sector lead role obliges coordination responsibilities in the context of the Work Plan, of which the CHF is a funding mechanism. The CHF standard allocation procedure requires a consultative and sectoral prioritization process guided by sector leads. Therefore, UNHCR's engagement in the CHF is necessarily aimed at securing resources for its programmes. The challenge is for sector leads to manage perceptions among agencies competing for funds by demonstrating the highest standards of evenhandedness. It is worth noting that the horse-trading that previously characterized CHF allocation processes has been replaced by prioritization processes that are based on pre-agreed criteria. The real obstacle is the small proportion of funds available relative to the substantial Work Plan requirements for any one sector or region. Based on the explanation provided by the UNHCR Representative in Sudan and his commitment to pay close attention to addressing the potential conflict of interest in any given situation, recommendation 6 has been closed.

Adequate staffing requirements for carrying out the responsibilities as a PHR sector co-lead should be factored into UNHCR's fundraising efforts

40. In order to ensure the overall efficiency of the humanitarian response in the PHR sector, it is essential that UNHCR invests in good technical capacity and coordination. The IASC Guidance Note on Using the Cluster Approach to Strengthen Humanitarian Response states that "any costs associated with cluster (sector) leadership at the global level will be incorporated into agencies' normal fundraising mechanisms". This implies that UNHCR's sector co-lead responsibilities for the PHR sector in the Sudan CHF would also be subject to UNHCR ensuring that it obtains the necessary funding to effectively perform this role, including, if feasible, through the CHF.

41. UNHCR estimated that a former staff member (Protection Officer in the Protection Unit whose post was cut in October 2009) who had been performing the function of the sector co-lead spent an annual total of 1,486 hours to discharge her related duties, equating to about 72 per cent of her total work time. Since November 2009, the same workload has been shared among three people in the Protection Unit. In 2010, the workload for the sector coordination is likely to increase, due to the re-centralization of the Sudan CHF in Khartoum.

42. This is a topic that has been frequently raised and discussed in the Humanitarian Country Team and the Sudan CHF Advisory Group, but a mutually agreeable and conclusive solution has not been reached. UNHCR should, as part of these sector-strengthening discussions, actively pursue the matter of reinforcing staffing capacity for the sector leadership responsibilities, in cooperation with other Sudan CHF sector leads, UNMIS as their co-sector lead, and the donor community, and develop a needs-based justification in this regard.

Recommendation 7

(7) The UNHCR Representation in Khartoum should use various fundraising avenues, including through the Sudan Common Humanitarian Fund, to put forward an evidence-

based proposal to strengthen the staffing capacity for its role as co-lead in the protection and human rights sector.

43. *The UNHCR Representation in Khartoum accepted recommendation 7 and stated that as mentioned in response to recommendation 3, justification has been made for additional post requirements under the 2011 Country Operations Plan. If and when approval is received to create the new positions, funding will be sought through all avenues available for UNHCR's programmes, including the Sudan CHF. Based on the action taken by the UNHCR Representation in Khartoum, recommendation 7 has been closed.*

UNHCR's responsibility for monitoring projects funded by the Sudan CHF that falls under its sector co-lead function should be formalized

44. Project-level monitoring to review progress against implementation plans should, in accordance with the Sudan CHF instructions and the Generic Terms of Reference for Sector/Cluster Leads at Country Level, be done by the sector leads. This is to ensure accountability within the Sudan CHF.

45. However, UNHCR does not specifically monitor the implementation of CHF-funded projects that fall under its sector co-lead responsibility. UNHCR receives programmatic output reports from the sector partners and compiles the information in a matrix report that is submitted to OCHA (the CHF Technical Unit which manages the programmatic aspects of the Sudan CHF), but the actual monitoring is in practice performed only through a screening of these reports and questions raised in sector-level meetings. OIOS understands that this is a requirement that has proved difficult to implement in practice also for many of the other CHF sector leaders. The contributions from the Sudan CHF are rather small, the resources available for this task are limited, and UNHCR and other partner organizations do not implement one project uniquely funded by the Sudan CHF.

46. Nevertheless, UNHCR should make efforts to discuss with their sector partners the need for a framework and criteria for monitoring, including the development of standard output indicators that could assist in facilitating monitoring at the project level. Alternatively, if this is not feasible with the current resources and in the current circumstances, UNHCR should formally report to the Humanitarian Coordinator, expressing its inability to comply with this requirement, while providing the justifications and seeking guidance on how to go about the issue.

Recommendation 8

(8) The UNHCR Representation in Khartoum, in coordination with its partners in the protection and human rights sector, should develop a monitoring framework and criteria for the sector. If this is not feasible, UNHCR should formally report to the Humanitarian Coordinator expressing its inability to comply with this requirement as per the Terms of Reference of the Sudan Common Humanitarian

Fund, providing the justifications and seeking guidance on how to go about this issue.

47. *The UNHCR Representation in Khartoum accepted recommendation 8 and stated that for the PHR sector, the monitoring and evaluation (M&E) indicators were developed in February 2009 in collaboration with other sub-sector focal points. The reporting for 2009 was based on these indicators. However, the challenge with monitoring of projects is that it is difficult and resource intensive, compounded with the problem of monitoring of projects in deep field locations. UNHCR PHR focal points coordinate with the CHF focal point for M&E challenges or issues. OIOS acknowledges the inherent challenges in monitoring CHF projects. However, further efforts are needed in the development of a monitoring framework for projects in the PHR sector. Recommendation 8 remains open pending the development of a suitable monitoring framework for the sector or receipt of a formal report issued by UNHCR to the Humanitarian Coordinator in Sudan expressing the inability to comply with this requirement.*

D. Project management arrangements

Lack of adequate audit trail linking activities funded by the Sudan CHF with implemented programmes

48. There is a need for the Representation in Sudan to significantly strengthen the audit trail on CHF-funded activities as required by the Sudan CHF Memorandum of Understanding (MoU). Planning and reporting for UNHCR country operations are conducted at the programme level, with one programme consisting of several activities (e.g., provision of NFIs, primary health care and distribution of food rations, etc.), to be implemented in various sectors. On the other hand, the planning and allocation of funds from the Sudan CHF are done for specific project activities in specific sectors and regions (e.g., provision of NFIs in Darfur). In submitting proposals for CHF projects, UNHCR has to artificially break down its programmes into projects as required by the Sudan CHF. However, actual implementation is at the programme level and there is no separate tracking of activities (both financial and outputs) at the CHF project level. This has resulted in a blurred audit trail as explained in the succeeding paragraph

49. UNHCR is not in compliance with the requirement of the Sudan CHF MoU, which requires the establishment of a separate ledger or account code to track the receipt and use of CHF funds. Consequently, OIOS was not able to trace programme expenditures to each of the 10 projects sampled for a detailed review as there was no separate tracking or record of expenditures related to these projects. During the audit fieldwork, an MS Excel spreadsheet of “Deduced CHF Expenditures” was generated by UNHCR based on the planned activities of the projects funded by the Sudan CHF. However, total expenditures as per the spreadsheet did not agree with the CHF funds allocated to the sampled projects. As a result, there was no guarantee that the expenditure listings provided were for actual CHF expenditures.

50. Non-compliance with the requirement to prepare project budgets, which had to be split between direct and indirect costs, was also noted on 60 per cent of the 10 sampled cases. For the projects that included an allocation budget, there was no tracking of activities against budgeted items as stipulated in the MoU.

51. Output reporting on CHF activities could be traced only in 50 per cent of the sampled cases, and in each case only partially, to reporting by the implementing partners, who according to UNHCR records had implemented the related activities. OIOS was provided with a list of implementing partners who implemented CHF projects from 2007 to 2009. However, it was noted that not all the implementing partners on the list provided had been involved in implementing the activities funded by the Sudan CHF. As a result, OIOS was not able to determine with certainty who were the actual implementing partners for the CHF-funded projects.

52. Lack of an effective and transparent system to link CHF project activities with UNHCR programmes affects the ability to accurately report on (both operational and financial) the use of CHF funds. The introduction of FOCUS, UNHCR's Results-Based Management software and the new budget structure will place further constraints on CHF planning and reporting since it does not allow for classification of activities by sector, as required by the Sudan CHF. On the other hand, FOCUS may prove to be a helpful tool in establishing the audit trail on CHF funded projects, as it provides a means to run report queries based on population groups, objectives and outputs. UNHCR in Sudan should look into this area.

Recommendations 9 and 10

The UNHCR Representation in Khartoum should:

(9) Comply with the provisions of the Memorandum of Understanding of the Sudan Common Humanitarian Fund (CHF) governing the establishment of: (a) a separate ledger or account code to track the receipt and administration of CHF funds, including interest; and (b) project budget, split into direct and indirect costs, for each CHF-funded project; and

(10) Put in place a mechanism to accurately link activities, targets and outputs of projects funded by the Sudan Common Humanitarian Fund with the activities, targets and outputs of the related UNHCR project/s that is/are being directly implemented by UNHCR or by the implementing partners.

53. *The UNHCR Representation in Khartoum accepted recommendation 9 but stated that, while they agreed with the principle, UNHCR's Managing for Systems, Resources and People (MSRP) enterprise software accounting and budgeting functionality does not allow for the establishment of a separate ledger and account code for the CHF funds. Therefore, a monitoring tool has been*

developed outside the MSRP system to track the budget and expenditures relating to the CHF funds. Based on the action taken and related documentation provided by the UNHCR Representation in Khartoum, recommendation 9 has been closed.

54. *The UNHCR Representation in Khartoum accepted recommendation 10 and stated that the audit period coincided with the transition of UNHCR's sector-based budget/expenditure software to the results-based management software (MSRP-FOCUS interface). Now that this process is completed and the new system is fully functional, the Representation Office has put in place a tracking system that links all donor contributions (including CHF) to activities as expressed in the new UNHCR budget/expenditure system. Based on the action taken and documentation provided by the UNHCR Representation in Khartoum, recommendation 10 has been closed.*

Audit trail between projects funded by the Sudan CHF and the related Work Plan projects should be strengthened

55. As stipulated in the Terms of Reference of the Sudan CHF, donor contributions to the Fund should be used to finance projects included in the Work Plan. To be eligible for funding from the Sudan CHF, UNHCR should submit project proposals that are in line with its related projects in the Work Plan. Depending on available donor contributions, CHF project activities will reflect only a fraction of the planned activities of the overall project in the Work Plan. However, at least the objectives, outcomes, targets and budget allocations included in the CHF funded project details should be in line with the related project in the Work Plan.

56. The link between UNHCR's CHF-funded projects and its related projects in the Work Plan needs to be improved. In 20 per cent of the sampled cases, outputs and targets of the CHF-funded projects were not in line with the corresponding projects in the Work Plan. Targets, against which performance will be measured, were not included in the CHF project proposals for 40 per cent of the sampled cases. As CHF projects are derived directly from the Work Plan, the objectives, outputs and targets of the CHF-funded project should be in line with the related project in the Work Plan. In another instance, it was also noted that the achievements reported for the CHF-funded project were higher than the overall achievements of the related project in the Work Plan. This creates an inconsistency in reporting as the CHF project represents only a small portion of the Work Plan project. To strengthen accountability for the use of funds, it is important that objectives, targets and outputs are always included in the CHF project details and are linked with the related work plan project details.

57. Due to missing documentation, OIOS could not assess compliance with the reporting requirements for four other projects funded by the Sudan CHF.

Recommendation 11

(11) The UNHCR Representation in Khartoum should strengthen the review process on the preparation of project proposals and project reports pertaining to the Sudan

Common Humanitarian Fund before submission to the sector leads to ensure that they are complete and in line with the related projects in the UN and Partners Work Plan for Sudan.

58. *The UNHCR Representation in Khartoum accepted recommendation 11 and stated that the Work Plan and CHF review processes have been the subject of radical transformation over the past two years, going from complete decentralization across nine regions to full centralization in 2010. Indeed, the abolition of posts that took place in 2009 took the decentralized processes into account. Under the present centralized review processes, project proposals are channeled through the Representation Office where a multi-functional team (led by the Deputy Representative and comprising Communications, Programme, Protection staff) reviews all project proposals prior to submission to concerned sector leads. Based on the action taken by the UNHCR Representation in Khartoum, recommendation 11 has been closed.*

Project record management and handover procedures need to be addressed

59. Good records maintenance is essential in strengthening transparency and accountability on the use and administration of funds allocated to UNHCR from the Sudan CHF. OIOS selected a sample of 10 CHF project proposal sheets and allocation matrices, as well as programmatic reporting matrices, to assess whether they were prepared in accordance with relevant CHF guidelines and timelines established by OCHA's CHF Technical Unit. For six out of the 10 projects sampled by OIOS, the project proposal sheets and allocation matrices could not be located. This was also the case for the reporting matrices for seven out of the 10 sampled projects. Furthermore, in accordance with the Terms of Reference, UNHCR is required to submit to the Administrative Agent (United Nations Development Programme) the annual financial statements and reports and certified final statements on its use of CHF funds, no later than six months following the end of each calendar year. For the 2008 calendar year, the Representation Office could not locate copies of the required statements and reports and OIOS could not obtain any evidence to support compliance with the reporting requirements.

60. With reference to the difficulties in obtaining project related documentation, OIOS noted that there was no central repository or filing system to store supporting documentation pertaining to the use of CHF funds. Staff members who had prepared the related project sheets and matrices were either on annual leave or no longer with UNHCR in Sudan. Current staff members were not always certain about the location of documents requested by the audit team and valuable time was spent trying to locate documents, which could not be found. Given the staff turnover in field operations, there is also a risk of loss of institutional knowledge on CHF activities if proper handover procedures are not formally established.

Recommendations 12 and 13

The UNHCR Representation in Khartoum should:

(12) Put in place a document management system supporting UNHCR's participation in all activities related to the Sudan Common Humanitarian Fund and ensure that records are maintained in a central location at the Representation Office in Khartoum and the sub-offices; and

(13) Ensure proper handover procedures for the activities related to the Sudan Common Humanitarian Fund.

61. *The UNHCR Representation in Khartoum accepted recommendation 12 and stated that following the audit mission, the Representation Office has since created a central repository (electronic and hard copies) in the Programme Section where all draft and final project proposals/reports and related correspondence to Sudan are filed systematically.* Based on the action taken by the UNHCR Representation in Khartoum, recommendation 12 has been closed.

62. *The UNHCR Representation in Khartoum accepted recommendation 13 and stated that handover procedures have been instituted wherein the departing staff member provides detailed notes as well as an oral presentation to the multi-functional team. The detailed notes will be incorporated in the guidelines being developed as stated in the comment on recommendation 5.* Based on the action taken by the UNHCR Representation in Khartoum, recommendation 13 has been closed.

V. ACKNOWLEDGEMENT

63. We wish to express our appreciation to the Management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNHCR Administration should make an assessment to determine the organizational structures and capacity at Headquarters that are required to be put in place to ensure that the Office effectively manages its participation in the Common Humanitarian Funds (CHF) in different countries, given the various roles and responsibilities that UNHCR has to fulfil in terms of the CHF.	Governance	High	O	Completion of an assessment to determine the organizational structures and capacity at the Headquarters that are required to be put in place to ensure that the Office effectively manages its participation in the CHF in different countries.	Not provided
2	The UNHCR Representation in Khartoum, in consultation with the UNHCR Division of External Relations, should develop a local fundraising strategy for Sudan, to ensure that sufficient resources are available to fund its core protection activities that cannot be funded through the Sudan Common Humanitarian Fund.	Strategy	High	C	Action Completed	Implemented
3	The UNHCR Representation in Khartoum should revisit its decision to abolish the posts that have contributed significantly to managing UNHCR's participation in the Sudan Common Humanitarian Fund (CHF) or come up with alternative solutions to ensure that it has adequate staffing arrangements in place to discharge its CHF-related responsibilities.	Human Resources	High	O	Communication of the outcome of the posts requested in the 2011 staffing submission.	Not provided
4	The UNHCR Representation in Khartoum should establish an organizational structure to manage its participation in the Sudan Common Humanitarian Fund in a way that allows it to discharge its responsibilities	Governance	High	C	Action Completed	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	effectively and in a consistent manner, while keeping the staffing costs at an acceptable level, and develop an organigramme that is communicated to all staff.					
5	The UNHCR Representation in Khartoum should ensure that staff members with extensive involvement in the Sudan Common Humanitarian Fund have the related responsibilities reflected in their job descriptions and individual work plans in order to provide a reliable basis for performance assessments.	Human Resources	Moderate	C	Action Completed	Implemented
6	The UNHCR Representative for Sudan should determine and communicate to staff whether UNHCR should primarily be a fundraiser or a sector coordinator in the protection and human rights sector that it has taken responsibility for to co-lead as part of the Sudan Common Humanitarian Fund.	Governance	High	C	Action Completed	Implemented
7	The UNHCR Representation in Khartoum should use various fundraising avenues, including through the Sudan Common Humanitarian Fund, to put forward an evidence-based proposal to strengthen the staffing capacity for its role as co-lead in the protection and human rights sector.	Human Resources	Moderate	C	Action Completed	Implemented
8	The UNHCR Representation in Khartoum, in coordination with its partners in the protection and human rights sector, should develop a monitoring framework and criteria for the sector. If this is not feasible, UNHCR should formally report to the Humanitarian Coordinator expressing its inability to comply with this requirement as per the Terms of Reference of the Sudan	Compliance	Moderate	O	Development of a suitable monitoring framework for the Protection and Human Rights sector or receipt of a formal report issued by UNHCR to the Humanitarian Coordinator in Sudan expressing the inability to comply with this requirement.	Not provided

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	Common Humanitarian Fund, providing the justifications and seeking guidance on how to go about this issue.					
9	The UNHCR Representation in Khartoum should comply with the provisions of the Memorandum of Understanding of the Sudan Common Humanitarian Fund (CHF) governing the establishment of: (a) a separate ledger or account code to track the receipt and administration of CHF funds, including interest; and (b) project budget, split into direct and indirect costs, for each CHF-funded project.	Compliance	Moderate	C	Action Completed	Implemented
10	The UNHCR Representation in Khartoum should put in place a mechanism to accurately link activities, targets and outputs of projects funded by the Sudan Common Humanitarian Fund with the activities, targets and outputs of the related UNHCR project/s that is/are being directly implemented by UNHCR or by the implementing partners.	Compliance	Moderate	C	Action Completed	Implemented
11	The UNHCR Representation in Khartoum should strengthen the review process on the preparation of project proposals and project reports pertaining to the Sudan Common Humanitarian Fund before submission to the sector leads to ensure that they are complete and in line with the related projects in the UN and Partners Work Plan for Sudan.	Compliance	Moderate	C	Action Completed	Implemented
12	The UNHCR Representation in Khartoum should put in place a document management system supporting UNHCR's participation in all activities related to the Sudan Common Humanitarian Fund and ensure that records are maintained in a	Operational	Moderate	C	Action Completed	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O¹	Actions needed to close recommendation	Implementation date²
	central location at the Representation Office in Khartoum and the sub-offices.					
13	The UNHCR Representation in Khartoum should ensure proper handover procedures for the activities related to the Sudan Common Humanitarian Fund.	Human Resources	Moderate	C	Action Completed	Implemented

¹ C = closed, O = open

² Date provided by UNHCR in response to recommendations