



## INTERNAL AUDIT DIVISION

### REPORT 2016/034

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Audit of the arrangements for procurement undertaken by partners using the Office of the United Nations High Commissioner for Refugees funds

Overall results relating to the effective management of procurement undertaken by partners were initially assessed as unsatisfactory. Implementation of four critical recommendations and one important recommendation remains in progress

FINAL OVERALL RATING: UNSATISFACTORY

25 April 2016

Assignment No. AR2015/161/01

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# AUDIT REPORT

## **Audit of the arrangements for procurement undertaken by partners using the Office of the United Nations High Commissioner for Refugees funds**

### **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the arrangements for procurement undertaken by partners using the Office of the United Nations High Commissioner for Refugees (UNHCR) funds.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. UNHCR collaborates with around 900 governmental and non-governmental organizations, United Nations agencies and other partners. In 2015, about \$1.3 billion (almost 40 per cent) of the UNHCR annual expenditure of around \$3 billion was spent through partnerships for providing assistance, protection and solutions to refugees and other persons of concern to UNHCR. The budget for procurement by partners with UNHCR funds was approximately \$505 million in 2014 and \$418 million in 2015.
4. The Implementing Partnership Management Service (IPMS), under the Division of Financial and Administrative Management (DFAM), was established in October 2011. IPMS supports, guides and oversees UNHCR efforts to strengthen strategic partnerships and operational management, as well as to enhance assurance and accountability of implementing partners (including capacity development for delivery of best results).
5. The UNHCR Enhanced Framework for Implementing with Partners outlines UNHCR policies, guidelines and practices for working with partners to implement projects. In November 2014, UNHCR issued the 'Policy and Procedures on Procurement by Partners with UNHCR Funds' (hereinafter referred to as the "2014 Policy") replacing the 2004 Implementing Partner Procurement Guidelines. The 2014 Policy was issued to simplify and clarify the applicable requirements for designating procurement of goods and services to partners and to reduce risks inherent to procurement by third parties through alignment with UNHCR procurement policies and procedures. The 2014 Policy also emphasized that UNHCR retains the overall responsibility for ensuring the integrity and accountability related to procurement management, including procurement entrusted to partners.
6. IPMS is required to monitor compliance with the 2014 Policy. The implementation of the 2014 Policy also calls for greater involvement of the Procurement Service under the Division of Emergency, Security and Supply, as it requires that all partners whose procurement is above \$100,000 per year should be pre-qualified by the Procurement Service. The Procurement Service is also tasked with providing technical support to field operations with regard to procurement by partners. UNHCR Regional Bureaux, under the supervision of the Assistant High Commissioner (Operations), are required to provide support and oversight to the field operations in ensuring compliance with the 2014 Policy.
7. The Head of IPMS is based at the UNHCR headquarters in Geneva, together with three staff, while six staff are based in Budapest. The Procurement Service, based at the UNHCR Global Service Centre in Budapest, is managed by the Head of Service and has 21 staff.

8. Comments provided by UNHCR are incorporated in *italics*.

## II. OBJECTIVE AND SCOPE

9. The audit was conducted to assess the adequacy and effectiveness of UNHCR governance, risk management and control processes in providing reasonable assurance regarding the **effective management of procurement undertaken by partners using UNHCR funds**.

10. The audit was included in the OIOS 2015 risk-based internal audit work plan for UNHCR because of financial and reputational risks associated with the procurement undertaken by partners using UNHCR funds given the significant amount spent by partners on procurement.

11. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide UNHCR operations in ensuring that procurement undertaken by partners is efficient, transparent, credible and consistent with UNHCR rules; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information related to procurement by partners.

12. The key control was assessed for the control objectives shown in Table 1.

13. OIOS conducted the audit from July to November 2015. The audit covered the period from 1 November 2014 to 30 September 2015. The UNHCR offices covered in the audit included the headquarters in Geneva and Budapest and the Representations in 16 countries, selected on the basis of financial volumes of procurement as well as regional balance. These were: Cameroon, the Central African Republic, the Democratic Republic of the Congo, Liberia, the Republic of South Sudan, Tanzania and Djibouti in Africa; Afghanistan, Bangladesh, Iran, Indonesia and Myanmar in Asia; Algeria and Egypt in the Middle East and North Africa; Panama in the Americas; and Ukraine in Europe.

14. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

## III. AUDIT RESULTS

15. The UNHCR governance, risk management and control processes examined were initially assessed as **unsatisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management of procurement undertaken by partners using UNHCR funds**. OIOS made five recommendations to address issues identified.

16. There was a critical need for UNHCR to: (i) strengthen controls and oversight arrangements over planning for procurement by partners through, *inter alia*, ensuring that cost-benefit analyses are systematically carried out by field operations to determine whether procurement by partners has a comparative advantage; (ii) strengthen controls and oversight arrangements related to the requirement to

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<sup>1</sup> A rating of “**unsatisfactory**” means that one or more critical and/or pervasive important deficiencies exist in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

assess partners' capacity to procure using UNHCR funds; (iii) clarify the responsibilities of UNHCR headquarters entities in enforcing compliance with the requirement for field operations to monitor procurement activities undertaken by partners; and (iv) implement an action plan for expediting the process of pre-qualifying partners. In addition, there was a need to assist partners in finalizing anti-fraud rules and procedures for procurement activities.

17. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of four critical recommendations and one important recommendation remains in progress.

Table 1  
Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of procurement undertaken by partners using UNHCR funds	Regulatory framework	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
<b>FINAL OVERALL RATING: UNSATISFACTORY</b>					

## Regulatory framework

### Controls and oversight arrangements over planning for procurement by partners required significant strengthening

18. The 2014 Policy requires UNHCR Representations to anticipate their procurement requirements at the time of preparing the annual Country Operations Plan, and decide whether to directly undertake procurement or to do so through the partnership modality. Before designating partners to procure with UNHCR funds, Representations are required to undertake and document a cost-benefit analysis to determine whether procurement through partners would be more advantageous than direct implementation. Regional Bureaux at headquarters are required to provide the necessary support and oversight to Representations in their respective regions regarding planning for procurement by partners.

19. None of the 16 field operations reviewed: (a) carried out a comprehensive assessment of their overall procurement requirements for 2015 to determine whether procurement should be undertaken directly by UNHCR or through the partnership modality; and (b) conducted a cost-benefit analysis to determine whether procurement through partners would be more advantageous than direct implementation. For example, the Representation in Cameroon entrusted partners with procurement amounting to \$5.8 million in 2015 without assessing its overall procurement needs at the annual planning stages and without carrying out cost-benefit analyses to establish whether procurement by partners was cost-effective.

20. OIOS observed the following consequences of unplanned or poorly planned procurement through partners in some of the field operations:

- In South Sudan, the Representation designated procurement of spare parts to a partner in 2015, totaling \$673,186, but did not document the advantage of this approach. A review of the same procurement of spare parts conducted by the partner a year earlier for \$427,034 had resulted in a delay of three months in the delivery of parts due to problems with customs tax exemption, which required UNHCR intervention. The Representation also entrusted another partner with the procurement of 31,000 litres of fuel without a cost-benefit analysis. The partner's procurement of fuel turned out to be more costly than direct procurement by \$24,552.
- In Afghanistan, the Representation allocated a budget of \$22,480 to a partner for the procurement of fuel in Jalalabad without an analysis to demonstrate that the partner had a clearly proven advantage.

21. Procurement planning was deficient in all the operations reviewed because: a) Heads of Offices at the field operation level did not implement adequate controls over procurement planning, including in terms of procurement to be designated to partners; and (b) Regional Bureaux at headquarters did not provide adequate support and oversight to field operations at the time of planning for procurement to be undertaken by partners. This exposed UNHCR to financial losses and failure to ensure timely delivery of goods and services.

**(1) The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to: (i) develop an action plan to improve compliance by field operations with the requirements for planning for procurement by partners using UNHCR funds, including the need to carry out cost-benefit analyses to ensure that partners are entrusted to procure on UNHCR's behalf only where they have a comparative advantage; and (ii) document the support and oversight arrangements, with clearly defined roles and responsibilities, that need to be in place in each Bureau to ensure systematic compliance regarding the above.**

*UNHCR accepted recommendation 1 and stated that, at the request of the Assistant High Commissioner (Operations), the Director of the Division of Emergency, Security and Supply (DESS) established a cross-functional task force comprising focal points from DESS, DFAM, the Division of Programme Support and Management (DPSM) and the Regional Bureaux. The task force developed the following action plan to respond to the audit recommendation: (i) The Procurement Service, in collaboration with the relevant Divisions and the Bureaux, would overhaul the planning instructions concerning procurement requirements both for direct procurement as well as procurement conducted by partners. An overview chart would be created to document the cost-benefit or comparative analysis and to provide guidance on which procurement could be entrusted to partners during the detailed operations planning; and (ii) Support would be provided through the annual planning instructions. The various monitoring, oversight and support responsibilities at headquarters level with regard to procurement undertaken by partners would also be established. This would include sample checks on selected operations for ensuring compliance with the planning process. In February 2016, the Assistant High Commissioner (Operations) also addressed the Directors of the five Regional Bureaux and the Directors of DESS, DFAM and DPSM to emphasize the importance of the audit findings, and to request their personal attention and leadership to ensuring sustained implementation of the actions. Recommendation 1 remains open pending submission to OIOS of: (i) detailed documentation on the action plan developed by the task force, containing clear deliverables and timelines, to improve compliance with the requirement that partners are entrusted to procure on UNHCR's behalf only where they have a comparative advantage; and (ii) documentary evidence of the related support and oversight arrangements with clearly defined roles and responsibilities.*

Compliance with the requirement to assess the partners' capacity to procure needed to be improved

22. According to the 2014 Policy, Representations are required to assess, before engaging partners under Project Partnership Agreements, that partners' human and logistics resources for undertaking procurement are at the required scale and that they have demonstrated experience and expertise in undertaking procurement. The Implementing Partnership Management Committee in each Representation should ensure that the requirement to undertake procurement in implementing UNHCR projects is included in the calls for expression of interest to potential partners and that an assessment of procurement capacity of each partner forms an essential component of the partner selection criteria. Regional Bureaux are required to provide support and oversight to Representations regarding the assessment of partners' capacity to procure.

23. In 12 of the 16 countries reviewed, Representations did not assess the partners' capacity to procure. Where such assessments were carried out, they were inadequate in their content and analysis and did not include a verification of the information provided by the partners, and the Supply Officers were not involved in the assessment. Involvement of Supply Officers would have provided valuable consideration of the ability of partners to undertake procurement on UNHCR's behalf. The review observed, *inter alia*, the following deficiencies:

- In South Sudan, the Representation sent calls for expression of interest only to pre-selected partners with whom it was already working, rather than advertising widely to all potential partners, and did not include an assessment of the existing partners' capacity to procure as part of the selection process.
- In Djibouti, Ukraine and Afghanistan, calls for expression of interest to partners did not include the requirement for the potential partners to indicate in their submission that they possessed the capacity to procure with UNHCR funds in compliance with the 2014 Policy.
- In Myanmar, not only did the Representation fail to assess the partners' capacity to procure but it also indicated to OIOS that it was not aware that its Implementing Partnership Management Committee was required to undertake such an assessment.

24. A report on the analysis of the results of the 2014 external audits of projects implemented by partners in UNHCR, prepared by IPMS, confirmed significant systemic weaknesses in partners' procurement activities. The weaknesses included: unsatisfactory bidding procedures; procurements made beyond delegated authority; and unsatisfactory controls over the three-way matching of the purchase order or contract, goods received note and invoice. These systemic weaknesses confirmed that Representations had not assessed whether partners had the pre-requisite controls or capacity before designating them to procure with UNHCR funds.

25. As a result of the above, UNHCR was exposed to risks related to working with partners that did not have the required human and logistics resources and expertise to undertake procurement, including inability to obtain value for money from procurement entrusted to partners. For example, in Afghanistan, the Representation allocated \$167,000 to a partner to construct schools, although the partner lacked experience in the construction of buildings. The completed construction work was of inferior quality, and the beneficiary did not accept the handover of the schools until corrective measures were taken.

26. The above deficiencies occurred because of: (i) inadequate controls at the Representation level to ensure that partners' capacity to procure was systematically assessed at the time of partner selection; and (ii) lack of arrangements at the level of the Regional Bureaux to provide the necessary support and oversight to UNHCR operations in their respective regions regarding the requirement to assess the partners' capacity to procure on UNHCR's behalf.

**(2) The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to: (i) develop an action plan to improve compliance by field operations with the requirement to assess the partners' capacity to procure on UNHCR's behalf as an essential component of the partner selection criteria; and (ii) document the support and oversight arrangements, with clearly defined roles and responsibilities, that need to be in place in each Bureau to ensure systematic compliance regarding the above.**

*UNHCR accepted recommendation 2 and stated that the action plan developed by the cross-functional task force further included the following elements: (a) DPSM, in collaboration with other relevant Divisions and the Bureaux, would develop guidance to assist field operations on the assessment of partners' capacity to procure when selecting a partner through the Implementing Partner Management Committee (IPMC). The minutes of the IPMC meetings would document the rationale for the decision; and (b) The various monitoring, oversight and support responsibilities at headquarters level with regard to procurement undertaken by partners would also be established. This would include sample checks on selected operations for ensuring compliance with the capacity assessment process. Recommendation 2 remains open pending submission of: (a) detailed documentation on the action plan developed by the task force, with clear deliverables and timelines, to improve compliance with the requirement that partners' capacity to procure on UNHCR's behalf is assessed as an essential component of the partner selection criteria; and (b) documentary evidence of the related support and oversight arrangements with clearly defined roles and responsibilities.*

Significant improvements were needed regarding monitoring of procurement by partners, including through clarification of the responsibilities in enforcing compliance with the requirement

27. The 2014 Policy requires UNHCR offices (i.e., programme and project control staff, or other authorized staff, under the leadership of the supply officer) and partners to establish a joint plan to closely support and monitor implementation of procurement activities undertaken by partners on UNHCR's behalf. At global level, the 2014 Policy tasks IPMS with monitoring compliance with the Policy while the Procurement Service is tasked with providing support to field operations on matters related to procurement by partners. The 2014 Policy also requires Regional Bureaux to provide support and oversight to the field operations in their respective regions regarding the need to conduct monitoring of procurement activities of partners.

28. In 11 of the 16 countries reviewed, Representations did not establish a joint plan under the leadership of the supply officer to closely support and monitor procurement activities undertaken by partners. Whilst financial monitoring carried out by project control staff frequently covered procurement aspects at partners, the supply officer was not involved in these exercises in any of the 16 countries. OIOS visits to selected partners in the operations reviewed indicated deficiencies that would have been highlighted during UNHCR financial verifications if such exercises had been undertaken or had been more thorough. For example:

- In Cameroon, the Representation prepared a monitoring plan only in May 2015 and financial monitoring activities were conducted in a disjointed and ad-hoc manner, with limited review of partners' procurement activities and without the involvement of the Representation's supply staff. This happened despite the fact that in 2014 the external auditors had raised a number of procurement-related observations for four major partners regarding absence of justification for non-competitive bidding and inadequate procedures for evaluation and award of contracts.
- In South Sudan, while a monitoring plan was in place, its implementation was slow and by October 2015, the Representation had visited only four of its 21 partners. OIOS reviewed transactions



totaling \$548,000 for the procurement of shelter materials at one partner and observed that no competitive bidding had been conducted because local suppliers individually lacked capacity to undertake procurement of such magnitude so one of them acted as the main supplier agreeing the prices for materials and collecting payments on behalf of all. The partner had not cleared this process with UNHCR, which was necessary since the partner was not pre-qualified to conduct procurement on UNHCR's behalf, and because of the significant total value of the transactions.

- The Representation in Algeria did not include in its monitoring plan a requirement for monitoring procurement by partners. As a result, the Representation did not identify and take corrective action when an international partner selected a contractor for laying water pipelines in two camps, involving \$0.5 million in November 2014, without open competition.

29. The systemic deficiencies in monitoring procurement by partners across UNHCR operations were associated with weak control mechanisms by Representations in enforcing compliance with the 2014 Policy. However, OIOS also assessed that UNHCR had not put in place adequate monitoring, oversight and support mechanisms at the headquarters level, with clear definition of responsibilities, to ensure that partner procurement monitoring was systematically conducted in the field. For example, although clause 22 of the 2014 Policy tasked IPMS to monitor compliance, it did not specify how the assigned monitoring responsibilities would be carried out. IPMS explained that it carried out its monitoring responsibilities by reviewing the summary of external audit reports on partners which had a section on procurement. It also developed training modules for partners. In the opinion of OIOS, such activities could not be termed as monitoring, which in the UNHCR context refers to ongoing review to track whether activities are having the desired impact and are proceeding according to plan and targets. The Procurement Service, which was responsible for providing technical support to field operations, stated that it did not have the resources to undertake tasks related to monitoring compliance with the 2014 Policy. Furthermore, the audit assessed that Regional Bureaux did not provide the necessary support and oversight to the field operations in ensuring that they conducted adequate monitoring of procurement by partners. In addition, although the programme function in field operations has a direct and critical responsibility in overseeing the implementation of project partnership agreements, including when they contain a procurement component, the role of the Division of Programme Support and Management in respect of procurement by partners was not clarified in the 2014 Policy.

30. As a result of the above-mentioned deficiencies, UNHCR could not ensure the efficiency, effectiveness and integrity of the procurement practices of its partners, which exposed it to risk of loss of financial resources, including through increased potential for fraud.

**(3) The UNHCR Assistant High Commissioner (Operations) should coordinate the formal clarification and documentation by the Division of Financial and Administrative Management, the Division of Emergency, Security and Supply, the Division of Programme Support and Management and the Regional Bureaux of the various monitoring, oversight and support responsibilities at the headquarters level with regard to the requirement for field operations to monitor procurement undertaken by partners using UNHCR funds.**

*UNHCR accepted recommendation 3 and stated that under the action plan developed by the cross-functional task force, UNHCR would set up a multifunctional team consisting of one member each from Procurement Service; IPMS; Programme Analysis and Support Section; and the five Regional Bureaux. The team would have collective responsibilities and each member would bring in their respective expertise and institutional accountability and would work closely with the Regional Bureaux. The main task of the team would be to annually review the performance of 15 prioritized countries in conducting their planning, assessment and monitoring activities. The Bureau would be informed about the areas that required improvement, so that it could follow up with the field and report progress to the multifunctional team within agreed timelines. The prioritized countries would*

*be selected based on defined risk criteria and also include randomly selected countries in order to ensure wide coverage of UNHCR operations. The performance and compliance requirements with regard to monitoring activities would be formally explained in a procedural document focusing on the following main areas: (a) appropriate justifications/comparative advantage for opting for procurement through partnerships; (b) evaluation of the selection of partners including capacity assessment of partners assigned to procure; (c) monitoring of partner adherence to their undertakings made in the Pre-Qualified for Procurement application process; and (d) follow-up of project audit recommendations. Recommendation 3 remains open pending submission of documentary evidence establishing the monitoring, oversight and support responsibilities at headquarters level with regard to the requirement for field operations to systematically monitor procurement activities undertaken by partners.*

The process for pre-qualification of partners needed to be expedited

31. The Procurement Service is responsible for the pre-qualification of partners, which entails assessing whether a partner's procurement policies and procedures are compatible with UNHCR standards. Pre-qualifying a partner confirms that the partner is permitted to carry out procurement of more than \$100,000 per Project Partnership Agreement. The pre-qualification evaluation should be conducted by the Procurement Service with the assistance of local UNHCR offices. According to the 2014 Policy, partners who are not pre-qualified will be granted a grace period up to November 2016 to obtain such a status. Each partner's pre-qualification should be assessed within 90 days of the submission of the application. Partners who have been awarded pre-qualification status are subject to periodic reviews by UNHCR, or an agent authorized by UNHCR, to ensure that the qualification remains valid.

32. OIOS review of the progress achieved since November 2014 in granting pre-qualification and the arrangements in place for processing the cases submitted by partners to the Procurement Service indicated the following shortcomings:

- Based on 2014 financial data, OIOS estimated that 328 partners were required to obtain pre-qualification since their budgets involved procurement in excess of \$100,000 per Project Partnership Agreement. Of these, 174 partners had annual procurement budgets that ranged from \$1 million to \$38 million. At the time of the audit in October 2015, only 20 partners were pre-qualified of which 17 had been pre-qualified under the previous rules (pre-November 2014) and only 3 had been processed under the new arrangements.
- Only 98 out of the 328 partners had applied for pre-qualification at the time of this audit. Of these 98 cases, the Procurement Service had processed only 30 and rejected 27 due to various shortcomings in the applications, i.e. only 3 partners had been pre-qualified.
- Of the 68 unprocessed files, 43 were pending for more than 240 days.
- The Procurement Service did not carry out pre-qualification with the assistance of field operations and therefore omitted to consider important inputs such as the results of the 2014 project audits and partner monitoring reports.
- Neither the Procurement Service nor the field operations carried out periodic reviews of partners that had been awarded pre-qualification status to ensure that it remains valid.

33. The slow progress in pre-qualification occurred because the Procurement Service had only one staff member at the G-6 level dedicated to the pre-qualification exercise. The Service said it did not have sufficient staff resources, although it could also not provide a detailed analysis to demonstrate why it was not possible to reallocate existing staffing resources to the pre-qualification task. Besides, the Service did not maintain sufficient oversight over the pre-qualification process. There was no evidence that it had monitored the timeliness of the process, including the requirement to process applications within 90 days,

during the period covered by the audit. As a result, UNHCR entrusted procurement valued at \$316 million to partners who had not been pre-qualified and may have been unsuitable to carry out efficient and cost-effective procurement using UNHCR funds. This exposed UNHCR to waste and loss of resources and potential reputational risks.

34. Subsequent to the audit fieldwork, the Procurement Service took prompt action to give the pre-qualification process top priority in light of the backlog that had developed. It allocated more resources to the exercise and adopted an approach to focus on the key control points related to pre-qualification, whilst remaining in compliance with the existing policy. As of 12 January 2016, out of the 122 submissions received from partners, 98 had been evaluated and 24 remained pending. Out of the 98 evaluated submissions, 27 had received pre-qualification status and 71 were in a consultation process. Overall, 44 partners had received the pre-qualified status, which included 27 newly granted cases and 17 cases where the pre-qualified status had been granted under the previous rules and was still considered valid. The Procurement Service also informed OIOS that revised guidance on pre-qualification would be developed to include: (a) consideration of project audit verification results; and (b) preparation of a focused checklist which would be validated by the field offices supporting the pre-qualification requests. It also informed OIOS that it was developing an action plan with resource requirements and milestones for meeting the target of finalizing all cases by November 2016.

**(4) The UNHCR Division of Emergency, Security and Supply should implement the action plan developed for processing all pre-qualification cases before the grace period lapses in November 2016 by ensuring that sufficient resources remain dedicated to this work and milestones are systematically met.**

*UNHCR accepted recommendation 4 and stated that following the action plan developed by the task force, the Procurement Service had taken action to improve the efficiency and effectiveness of the pre-qualification process by: (a) increasing the resources allocated; (b) concentrating on a selected set of key controls/principles; (c) taking a proactive role in the consultation process with the partners; and (d) encouraging the country operations to assist in prompting and supporting partners to submit their applications. This would enable the completion of the pre-qualification of partners within the set deadline which could already be seen from the fact that the Procurement Service had managed to evaluate more than 130 submissions, none of which were beyond the deadline of 90 days. Based on lessons learned from the first year of the policy, the Procurement Service in collaboration with IPMS would also review to what extent UNHCR procurement guidelines for partners could be enhanced and aligned with those of other United Nations organizations to reduce the burden on partners and to address procurement risks. UNHCR would also assess if specific procedures were required for the pre-qualification of government partners. Recommendation 4 remains open pending submission of documentary evidence that the pre-qualification process has been substantially completed and confirmation that sufficient resources will continue to remain available to complete all pre-qualification cases before the grace period lapses in November 2016.*

Partners needed to be assisted with establishing anti-fraud rules and procedures for procurement activities

35. The 2014 Policy requires field operations to ensure that partners take reasonable measures to prevent, investigate and, if needed, discipline fraudulent actions related to procurement, and to put in place a code of conduct concerning ethical practice and avoidance of conflicts of interest. All partner employees with designated procurement authority must understand and observe the code of conduct.

36. OIOS review of the 16 field operations indicated that the Representations had not systematically ensured that partners had policies and procedures to prevent, investigate and discipline fraud. In Liberia, Indonesia, Iran, Myanmar, Bangladesh and Afghanistan, the partners visited had fraud detection and

prevention rules and procedures in place but their staff were not trained to familiarize themselves with those rules and procedures. In Tanzania, for one partner, the code of conduct was incorporated in their Procurement, Warehousing and Transportation Manual, but the partner's staff were not familiar with the code. In Panama, none of the four partners visited had fraud detection and prevention rules and procedures in place.

37. As a result, there was a risk that UNHCR funds meant for procurement by partners could be lost through fraudulent practices. This occurred because UNHCR did not have a concrete plan at the headquarters level for ensuring that field operations systematically monitored and assisted partners to establish measures to prevent, investigate and, if needed, discipline fraudulent actions.

**(5) The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to prepare an action plan, with clear deliverables and timelines, for ensuring that field operations monitor and assist partners to establish measures for detecting, preventing, reporting and disciplining fraud.**

*UNHCR accepted recommendation 5 and stated that the action plan developed by the cross-functional task force would include the following elements: (a) The task force would build upon a corporate-wide initiative launched by DFAM to enhance fraud prevention and to address fraud risks; (b) Operational Guidance on Ethics would be drafted, with the requirement for partners and UNHCR to uphold ethical conduct. The Guidance would include essential elements for detecting, preventing, reporting and disciplining fraudulent acts; (c) UNHCR would add a requirement for partners to disclose their antifraud arrangements in their application for the pre-qualification as well as during submission of the Concept Note for partner selection; (d) A simplified fraud risk register would be developed and made available for the field to be used for monitoring of projects including procurement with UNHCR funds; and (e) Training materials for UNHCR staff being developed by DFAM on anti-fraud measures would be tailored for use by partners and would also address raising of awareness and improving prevention. Partners would be encouraged to ensure their personnel responsible for managing UNHCR funds and procurement undergo relevant training. Recommendation 5 remains open pending submission of detailed documentation on the action plan developed by the task force, with clear deliverables and timelines, for ensuring that field operations monitor and assist partners to establish measures for detecting, preventing, reporting and disciplining fraud, including in procurement activities.*

#### IV. ACKNOWLEDGEMENT

38. OIOS wishes to express its appreciation to the Management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of the arrangements for procurement undertaken by partners using the Office of the  
United Nations High Commissioner for Refugees funds**

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to: (i) develop an action plan to improve compliance by field operations with the requirements for planning for procurement by partners using UNHCR funds, including the need to carry out cost-benefit analyses to ensure that partners are entrusted to procure on UNHCR's behalf only where they have a comparative advantage; and (ii) document the support and oversight arrangements, with clearly defined roles and responsibilities, that need to be in place in each Bureau to ensure systematic compliance regarding the above.	Critical	O	Submission to OIOS of: (i) detailed documentation on the action plan developed by the task force, containing clear deliverables and timelines, to improve compliance with the requirement that partners are entrusted to procure on UNHCR's behalf only where they have a comparative advantage; and (ii) documentary evidence of the related support and oversight arrangements with clearly defined roles and responsibilities.	31 December 2017
2	The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to: (i) develop an action plan to improve compliance by field operations with the requirement to assess the partners' capacity to procure on UNHCR's behalf as an essential component of the partner selection criteria; and (ii) document the support and oversight arrangements, with clearly defined roles and responsibilities, that need to be in place in each Bureau to ensure systematic compliance regarding the above.	Critical	O	Submission to OIOS of: (a) detailed documentation on the action plan developed by the task force, with clear deliverables and timelines, to improve compliance with the requirement that partners' capacity to procure on UNHCR's behalf is assessed as an essential component of the partner selection criteria; and (b) documentary evidence of the related support and oversight arrangements with clearly defined roles and responsibilities.	31 August 2016
3	The UNHCR Assistant High Commissioner	Critical	O	Submission to OIOS of documentary evidence	31 December 2016

<sup>2</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>3</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by UNHCR in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of the arrangements for procurement undertaken by partners using the Office of the  
United Nations High Commissioner for Refugees funds**

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
	(Operations) should coordinate the formal clarification and documentation by the Division of Financial and Administrative Management, the Division of Emergency, Security and Supply, the Division of Programme Support and Management and the Regional Bureaux of the various monitoring, oversight and support responsibilities at the headquarters level with regard to the requirement for field operations to monitor procurement undertaken by partners using UNHCR funds.			establishing the monitoring, oversight and support responsibilities at headquarters level with regard to the requirement for field operations to systematically monitor procurement activities undertaken by partners.	
4	The UNHCR Division of Emergency, Security and Supply should implement the action plan developed for processing all pre-qualification cases before the grace period lapses in November 2016 by ensuring that sufficient resources remain dedicated to this work and milestones are systematically met.	Critical	O	Submission to OIOS of documentary evidence that the pre-qualification process has been substantially completed and confirmation that sufficient resources will continue to remain available to complete all pre-qualification cases before the grace period lapses in November 2016.	31 October 2016
5	The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to prepare an action plan, with clear deliverables and timelines, for ensuring that field operations monitor and assist partners to establish measures for detecting, preventing, reporting and disciplining fraud.	Important	O	Submission to OIOS of detailed documentation on the action plan developed by the task force, containing clear deliverables and timelines, for ensuring that field operations monitor and assist partners to establish measures for detecting, preventing, reporting and disciplining fraud, including in procurement activities.	30 June 2017

# **APPENDIX I**

## **Management Response**





Management Response

Audit of the arrangements for procurement undertaken by partners using the Office of the United Nations High Commissioner for Refugees funds

Rec. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>procurement conducted by partners.</p> <p>The aim is to create an overview chart to document the cost-benefit or comparative analysis and to guide on the decision on which procurement may be entrusted to Partners during the detailed Operations Planning in the field.</p> <p>(ii) Support will be provided through the annual planning instructions. Oversight will be provided by the multi-functional team outlined in recommendation 3 below by including sample checks on selected operations for the completeness of and compliance with this planning process.</p> <p>Please also note that in connection with all findings in the OIOS report the Assistant High Commissioner (Operations) has written in February 2016 to the Directors of the five Regional Bureaux and to the Directors of DESS, DFAM and DPSM to emphasize the important nature of the audit findings, and to request their personal attention and leadership to ensuring a sustained implementation of actions.</p>

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**Audit of the arrangements for procurement undertaken by partners using the Office of the  
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Rec. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
2	The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to: (i) develop an action plan to improve compliance by field operations with the requirement to assess the partners' capacity to procure on UNHCR's behalf as an essential component of the partner selection criteria; and (ii) document the support and oversight arrangements, with clearly defined roles and responsibilities, that need to be in place in each Bureau to ensure systematic compliance regarding the above.	Critical	Yes	Head of PASS in collaboration with PS, IPMS and Bureaus	Task force is operational and work in progress  31 August 2016	<p>The action plan referred to under recommendation 1 further includes the following elements to address the recommendation 2:</p> <p>(i) DPSM in collaboration with other relevant Divisions and the Bureaux will develop guiding questions to assist the field on the assessment of partners' capacity to procure when selecting a partner to undertake procurement.</p> <p>The Field will be required to take the decisions to engage a partner through the Implementing Partner Management Committee meeting (IPMC). The minutes of the IPMC meeting should document the rationale for the decision.</p> <p>(ii) Oversight arrangements will be provided by the multi-functional team outlined in recommendation 3 below, by including sample checks on selected operations for the completeness of and compliance with this assessment process.</p>
3	The UNHCR Assistant High Commissioner (Operations) should coordinate the formal	Critical	Yes	Head of IPMS, to lead with joint	Task force is operational and	Following the action plan developed by the task force (see

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	clarification and documentation by the Division of Financial and Administrative Management, the Division of Emergency, Security and Supply, the Division of Programme Support and Management and the Regional Bureaux of the various monitoring, oversight and support responsibilities at the headquarters level with regard to the requirement for field operations to monitor procurement undertaken by partners using UNHCR funds.			responsibilities of DPSM/PASS, DESS/PS and Bureaux.	work in progress  First year cycle completed by 31 Dec 2016	<p>recommendation 1 for details) in response to recommendation 3:</p> <p>UNHCR will set up a multifunctional team to address this recommendation by establishing a “joint monitoring and support team” consisting of one member from each of the technical Services (PS, IPMS, PASS) and the Regional Bureaux. The multifunctional team will establish Terms of Reference that will define the various monitoring, oversight and support responsibilities at headquarters level with regard to the monitoring of procurement undertaken by partners.</p> <p>The team will have collective responsibilities and each member would bring in their respective expertise and institutional accountability: (DESS/PS: Procurement aspects; DFAM/IPMS, financial, audit and partnership aspects; DPSM/PASS: programme aspects) and will work closely with respective Regional Bureaux.</p> <p>The main task of the team is to annually review the performance of around 15 selected prioritized</p>

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						<p>countries in conducting their planning, assessment and monitoring activities.</p> <p>The outcome of the review will inform the Bureau about the areas that require improvements, so the Bureau can follow up with the field and report back the progress to the team in line with agreed time-lines on the areas that require improvements and compliance.</p> <p>The prioritized countries will be selected based on defined risk criteria and include randomly selected countries in order to ensure wide coverage of UNHCR operations.</p> <p>The review of the performance and compliance of the country operations with regard to monitoring activities will be formally explained in a procedural document and focus on the following main areas:  a) appropriate justifications/comparative advantage for opting for procurement through partnerships, b) capacity assessment undertaken and evaluation of the selection of partners that have been assigned to procure,</p>

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						<p>c) monitoring during implementation including partner adherence to their undertakings made in the Pre-qualified for Procurement (PQP) application process</p> <p>d) follow-up of project audit recommendations.</p>
4	<p>The UNHCR Division of Emergency, Security and Supply should implement the action plan developed for processing all pre-qualification cases before the grace period lapses in November 2016 by ensuring that sufficient resources remain dedicated to this work and milestones are systematically met.</p>	Critical	Yes	Head of PS, in collaboration with IPMS	Action plan implemented	<p>Following the action plan developed by the task force (see recommendation 1 for details) in response to recommendation 4.</p> <p>UNHCR would like to highlight that the key elements of the action plan, improving the effectiveness and efficiency of the pre-qualification process are already implemented.</p> <p>DESS/PS has taken action to improve the efficiency and effectiveness of the pre-qualification process by increasing the resources allocated; by concentrating on a selected set of key controls/principles; by taking a very proactive role in the consultation process with the partners and by encouraging the country operations to assist in prompting and supporting partners to submit their applications. This should enable the completion of the pre-qualification of partners within the set deadline as it can already be seen from the fact that the</p>

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					<p>Draft shared for discussions with selected partners by 30 June 2016.</p> <p>New guidance issued by 31 October 2016</p>	<p>Procurement Service has managed to evaluate more than 130 submissions (with 0 beyond the deadline of 90 days) by the date of the issuance of this response.</p> <p>Based on lessons learned from the first year of the policy, PS in collaboration with IPMS will also review to what extent our procurement guidelines to partners can be enhanced and aligned with those of other UN organizations to reduce the burden on partners and address procurement risks and if we need to define specific procedures for the pre-qualification of government partners.</p>
5	The UNHCR Assistant High Commissioner (Operations) should request the relevant Divisions and Regional Bureaux to prepare an action plan, with clear deliverables and timelines, for ensuring that field operations monitor and assist partners to establish measures for detecting, preventing, reporting and disciplining fraud.	Important	Yes	Head of IPMS in collaboration with PS, PASS and Bureaus	<p>Fraud prevention project in progress</p> <p>Fraud risk registers implemented</p> <p>Operational guidance and main potential risks by December</p>	<p>The action plan (see recommendation 1 for details) further includes the following elements to implement recommendation 5.</p> <p>The HQ task force can built on a corporate-wide initiative launched by DFAM to enhance fraud prevention and to address fraud risks</p> <p>Operational Guidance on Ethics is being drafted, with the requirement from partners and UNHCR to uphold ethical conduct. The Guidance will</p>

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<b>Rec. no.</b>	<b>Recommendation</b>	<b>Critical<sup>6</sup>/ Important<sup>7</sup></b>	<b>Accepted? (Yes/No)</b>	<b>Title of responsible individual</b>	<b>Implementation date</b>	<b>Client comments</b>
					<p>2016</p> <p>Training materials for Partners by mid-2017</p>	<p>include essential elements for detecting, preventing, reporting and disciplining fraudulent acts.</p> <p>A requirement for partners to disclose their arrangement for antifraud measures in the application for the procurement pre-qualification process as well as during submitting of Concept Note for selection to undertake project will be added.</p> <p>A simplified potential fraud risk register will be developed and made available for the field to be used for monitoring of projects including procurement with UNHCR funds at field level (covering prevention)</p> <p>Training materials are currently being developed by DFAM for anti-fraud measures for the use of UNHCR staff will be tailored for use by partners and will address the raising of awareness and improving prevention. Partners will be encouraged to ensure their personnel who are responsible for managing UNHCR funds and procurement undergo relevant training.</p>