



INTERNAL AUDIT DIVISION

REPORT 2022/082

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

UNHCR arrangements for monitoring and oversight of procurement entrusted to partners required strengthening

21 December 2022

Assignment No. AR2021-168-01

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

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of procurement undertaken by partners using funds of the Office of the United Nations High Commissioner for Refugees (UNHCR). The objective of the audit was to assess whether UNHCR's management over procurement by partners was adequate and effective in ensuring integrity, fairness, competition and value for money. The audit covered the period from 1 January 2020 to 31 December 2021 and included review of: (a) supply planning by country operations; (b) prerequisites for entrusting procurement to partners; (c) oversight by Regional Bureaux; (d) fraud prevention and detection; and (e) governance and oversight by Headquarters Divisions.

UNHCR delivered, through partnerships, protection and assistance to persons of concern (PoCs) totaling \$2.8 billion or 31 per cent of the total expenditure of \$9 billion in 2020 and 2021. Partners spent \$1.25 billion on the procurement of goods and services. UNHCR rules on procurement by partners were adequately designed but their implementation remained a challenge and this was exacerbated in a decentralized and regionalized setup. While the five recommendations in the 2015 audit on partner procurement were closed, the current audit noted that instituted controls were not sustained. To ensure best value is obtained, UNHCR needed to, as part of the ongoing transformation, reinforce its due diligence before and monitoring oversight after procurement is delegated to partners.

OIOS made six recommendations. To address issues identified in the audit, UNHCR needed to:

- Strengthen guidance on procurement planning processes so that: resultant plans reflect UNHCR needs; the most cost-effective vehicle for procurement is identified; and Regional Bureaux have better clarity about their role over these processes.
- Strengthen due diligence over delegation of procurement to partners by: conducting assessments of: (i) partner comparative advantage; (ii) capacity; and (iii) risk, to inform decisions on whether to delegate procurement to a partner and the extent thereof; and implementing mechanisms for continuously monitoring and supporting these delegations.
- Strengthen guidance and tools for: monitoring and reporting on whether partner procurement rules align with UNHCR rules; and informing decisions to revoke partner pre-qualification to procure when necessary.
- Strengthen partner procurement monitoring by country operations, by adopting a risk-based approach to reviews of partner procurement activities and including Supply Officers in Multi-Functional Teams.
- Ensure robust monitoring of partner's application of fraud prevention and detection mechanisms and due diligence in procurement to safeguard UNHCR funds.
- Clarify the role of relevant second line entities regarding partner procurement in the context of decentralization and regionalization; and ensure that project auditors include a risk-based review of partner procurement in their scope of work.

UNHCR accepted all recommendations and had initiated action to implement them. Actions required to close the recommendations are indicated in Annex I

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

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement undertaken by partners using funds of the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. UNHCR works with some 1,300 governmental and non-governmental organizations, United Nations agencies and other partners. Partners spent \$2.8 billion or 31 per cent of the total expenditure of \$9 billion in 2020 and 2021 on delivering protection and assistance to persons of concern (PoCs). Of this, partners spent \$1.25 billion on procurement of goods and services.
3. The UNHCR Enhanced Framework for Implementing with Partners outlines policies and guidelines for working with partners to implement projects. In 2018, UNHCR issued an Administrative Instruction on Procurement by Partners under Partnership Agreements (2018 Instruction) to align its rules to those of partners in order to reduce risks inherent to purchases by third parties. Regional Bureaux are responsible for supporting and overseeing country operations' compliance with this 2018 Instruction. Country operations support and monitor partners implementation of procurement activities conducted on UNHCR's behalf.
4. The Division of Strategic Planning and Results (DSPR) and the Division of Emergency, Security and Supply (DESS) support the Regional Bureaux in their monitoring role by promoting organization-wide coherence, developing policies, normative and administrative guidance within their respective areas. DSPR's Implementation Management and Assurance Service (IMAS): (a) provides guidance and technical support to partners, field operations and Regional Bureaux; (b) commissions audits of projects implemented by partners; and (c) monitors committees responsible for partner selection. DESS' Supply Management Service (SMS): (a) grants or revokes partners' pre-qualification for procurement (PQP); (b) participates in technical reviews; (c) supports country operations in doing their due diligence prior to entrusting procurement to partners; and (d) assesses the feasibility of including partners in country supply plans.
5. UNHCR is under the transformation process reviewing and updating policies and guidance as well as roles and responsibilities. This included the Business Transformation Programme (BTP) which was central to instituted systems including the upcoming Project, Reporting, Oversight and Monitoring Solution (PROMS) system that is expected to manage partner agreements, enable online collaboration and support document management.
6. OIOS conducted an audit of the procurement undertaken by partners using UNHCR funds in 2015 (AR/2016/034) which raised five recommendations, four of which were critical. OIOS closed the recommendations based on evidence submitted by UNHCR that identified weaknesses were addressed.
7. Comments provided by UNHCR are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess whether UNHCR's management and oversight arrangements over procurement undertaken by partners were adequate and effective in ensuring integrity, fairness, competition and value for money.

9. This audit was included in the 2021 risk-based work plan of OIOS due to the significant amount of partner procurement and related financial and reputational risks that may arise from such transactions.

10. OIOS conducted this audit from February to September 2022. The audit covered the period from 1 January 2020 to 31 December 2021. Based on an activity-level risk assessment, the audit covered higher risks areas pertaining to: (a) supply planning by country operations; (b) due diligence to inform delegation of procurement to partners; (c) support and management oversight over related processes by Regional Bureaux; (d) fraud prevention and detection; and (e) governance and oversight at headquarters. The audit included a review of procurement undertaken by 36 partners in Bangladesh, the Democratic Republic of Congo (DRC), Lebanon, Malawi, Nigeria, Syria, Tanzania and Turkey totaling \$169 million.

11. The audit methodology included: (a) interviews with key personnel at selected partners, country operations, Regional Bureaux and headquarters; (b) review of relevant procurement documentation at the partners and country operations; (c) analytical review of data from Power BI and Managing for Systems, Resources and People, the UNHCR enterprise resource planning system; and (d) sample testing of controls and verification of the goods and services procured.

12. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Supply planning at country operations

Need to ensure inclusion of partner procurement in country supply plans

13. Chapter 8 of the UNHCR Manual and instructions requires that Country Supply Plans (CSP) are prepared that include procurement entrusted to partners. Partners should also prepare their own annual procurement plans which include items to be procured, quantities, indicative prices and confirmation that cost benefit analyses have been carried out. Table 1 shows the status of implementation of planning requirements by the eight operations.

Table 1: **Implementation of procurement planning**

	Included	Partially included	Not included
Inclusion of partner procurement in CSP	DRC, Turkey	Lebanon (only covered ICT equipment)	Bangladesh, Malawi, Nigeria, Syria, Tanzania (\$188 million)
Partners prepared procurement plans	Bangladesh, DRC, Lebanon, Malawi, Syria, Turkey		Nigeria, Tanzania

14. The absence of proper planning contributed to partners conducting procurements in an ad-hoc manner, thereby missing opportunities to realize best value. For instance, 10 partners in three operations (Bangladesh, Malawi, Nigeria) that did not include partner procurement in their CSPs had split procurement totaling \$9.6 million and thus did not obtain discounts or favorable prices from bulk purchases. This included \$7.5 million spent on vehicle rentals in Bangladesh, where significant price differences (ranging from 11 to 112 per cent) were noted across different partners. The operation went against the Global Fleet Management advice to purchase instead of rent vehicles, which was not economical.

15. Six and three partners in Tanzania and Nigeria respectively conducted procurements totaling \$8.9 million in 2020/2021 without procurement plans. In such cases, the country operations did not have a basis against which to monitor partner procurement activities. On the other hand, partners that developed plans

did not necessarily reap the intended benefits as the plans were not comprehensive enough to guide procurement processes and/or were not followed. For instance, a partner in Bangladesh procured jute hessian cloth for \$800,000 through 16 different exercises, which was not only time consuming and inefficient but also was a missed opportunity to realize the benefits of bulk purchases. Another partner in Bangladesh purchased 70 per cent of all educational materials in December 2020, which indicated that the procurement was rushed and did not achieve expected economies. These instances called for countries to reinforce their own and partners' planning processes to obtain best value on procurement.

16. These deficiencies were due to the lack of clarity in policies, instructions and guidance on overall supply planning and inadequate oversight. Exclusion of or incomplete partner data in CSPs limited UNHCR's ability to monitor procurement and ensure economies of scale and efficiencies.

- (1) The UNHCR Division of Strategic Planning and Results should, in consultation with the Division of Emergency, Security and Supply, strengthen the guidance for the procurement planning process so that: (a) plans accurately reflect UNHCR needs; (b) the most cost-effective vehicle for procuring goods and services is identified; and (c) Regional Bureaux have clarity on their role in overseeing and supporting procurement planning and implementation processes.**

UNHCR accepted recommendation 1 and stated that DSPR and DESS are updating relevant policies and procedures and would be issuing revised instruments in the course of 2023 with the roll-out of new systems. The revised policies and procedures will provide greater clarity about how operations can and should align (i) the procurement needs of UNHCR; and (ii) the procurement needs of partners for the delivery of results under Partnership Agreements. The revised instructions and guidance will clarify what role the Bureaux play in their oversight role in reviewing the extent to which procurement/supply plans are comprehensive of forecast requirements and identify the most effective organization(s) to meet procurement/supply requirements.

B. Prerequisites for entrusting procurement to partners

Need to strengthen due diligence for partner pre-qualification

17. Prior to entrusting procurement to a partner, country operations are required to assess if this provides a comparative advantage over direct procurement. Seven of the eight country operations reviewed conducted such assessments. (One country operation could not assess partners in 2020 due to COVID-19 pandemic restrictions.) However, the audit found that the quality of assessments in six countries (DRC for 2021, Lebanon, Malawi, Nigeria, Syria and Tanzania) was inadequate to effectively inform decisions on: (a) whether to delegate procurement to partners or not; (b) the adequacy of partners' capacity to purchase to the extent delegated; and (c) required actions to mitigate risks inherent in procurement activities undertaken by partners.

18. For example, the assessments lacked meaningful analyses of key procurement processes as well as procurement lead time and estimated costs. This was because country operations copied justifications from prior years and/or used the same reasonings for all partners. Furthermore, the assessments did not consider the results of project audits and monitoring conducted by Multi-Functional Teams (MFTs) and Project Control teams.

19. Furthermore, the audit showed that conclusions reached by five country operations (Bangladesh, Malawi, Nigeria, Syria, Tanzania) on partner capacity were faulty. For instance, in Malawi and Tanzania, partners that were delegated \$1.5 and \$2.1 million respectively lacked the capacity (staff numbers and/or

expertise) to conduct procurement activities. In Malawi, partner staff did not know that the tender box should be kept under lock and key, and the documentation that needed to be compiled, e.g., opened bid envelopes. The decision to delegate procurement to partners in Bangladesh and Tanzania resulted in the payment of value added tax which represented an over-expenditure totaling \$3.8 million in 2020/2021. UNHCR revised the templates in 2021 to ensure that value added tax exemption and audit recommendations were factored into the comparative advantage assessments. However, these considerations were not always included in decision making.

20. The issues above resulted in unsuitable partners engaged to procure on behalf of UNHCR, leading to financial losses and increased fraud and reputational risks.

Pre-qualification for procurement (PQP)

21. The 2018 Instruction requires that prospective partners for procurement value exceeding \$100,000 under a single partnership agreement obtain PQP status. A partner is granted PQP status when its procurement policies and rules are assessed by UNHCR as being compatible with the 2018 Instruction. One of the roles of SMS is to conduct assessments and grant or revoke PQP status. As of 31 December 2021, 431 partners had PQP status, 285 of which had been granted in 2020/2021 and 146 in 2017-2019. A total of 330 applications for PQP had been received in 2020/2021.

22. The granting of PQP was untimely and ineffective in 33 instances tested. Fifteen PQP applications were processed within 1-180 days; 14 within 181-360 days; 2 were done over 360 days; and for 2, dates were unavailable. In all 33 instances, there was generally no compatibility with UNHCR procurement principles, roles and responsibilities and procedures, as presented in table 2. This non-alignment contributed to shortcomings identified in this report.

Table 2: Comparison of partner procurement framework with UNHCR 2018 Instruction for a sample of 33 PQP

<i>Procurement attributes tested</i>	<i>Inadequate</i>	<i>Adequate</i>
Procurement principles (value for money, fairness, integrity, transparency, effective international competition, best interest of the organization)	8	25
Roles and responsibilities (procurement function and committees)	10	23
Procurement procedures:		
Thresholds (either too low or too high)	23	10
Procurement sub-processes	19	14
Waiver of competitive bidding	16	17
Regret letters to unsuccessful bidders	17	16
Contract management	18	15
Vendor management	9	24
Payment to vendors	9	24
Segregation of incompatible functions	15	18
Recordkeeping	10	23

23. Further, while the MFT conducted verifications at the country level, OIOS did not see evidence that they provided feedback to SMS and IMAS on whether partners deviated in their application of the procurement rules. OIOS noted that in 2020/2021, UNHCR had not revoked PQP status of any partners. DSPR noted that it expected that these issues would be addressed in the revised policy that was underway.

(2) The UNHCR Division of Strategic Planning and Results should strengthen the due diligence conducted prior to delegating procurement to partners, including but not limited to ensuring that: (a) comparative advantage assessments are conducted; (b) a risk-opportunity lens is used to determine the level of procurement authority that can be

delegated to partners; and (c) mechanisms are in place to ensure continuous monitoring and support of partners’ procurement capacity.

UNHCR accepted recommendation 2 and stated DSPR would address the recommendation through the issuance of updated policies and procedures in 2023.

(3) The UNHCR Division of Strategic Planning and Results should, in consultation with the Division of Emergency, Security and Supply, strengthen guidance and tools for monitoring and reporting on alignment of partner procurement rules with UNHCR procurement principles, to inform decisions on whether to revoke partner pre-qualification to procure when necessary.

UNHCR accepted recommendation 3 and stated that in new policies and procedures to be promulgated in 2023, DSPR will ensure that the findings of verifications and audits by project control and multi-functional teams relating to procurement are captured, made available to oversight functions (including the Bureaux and headquarters Divisions) and that mechanisms exist to (i) refer to the partner instances of possible non-compliance by the partner’s staff; or (ii) trigger a re-assessment of a partner’s PQP in appropriate cases.

C. Procurement management

24. UNHCR offices remain accountable for the integrity of procurement management when they designate procurement responsibilities to partners.

25. The audit noted that partners in the eight operations reviewed did not consistently apply UNHCR procurement principles. Figure 1 presents the countries where instances of non-compliance were found, and the combined value of related contracts.

Figure 1: Countries where instances of non-compliance in partner procurement were noted

Cause: Inadequate and ineffective monitoring and oversight by Representations and the Regional Bureaux; lack of procurement capacity at partners; disregard of procurement rules		
Gaps identified in the audit	Procurement value \$ millions	Operations in which issues were noted
Inappropriate or inadequate solicitation arrangements	13	Bangladesh, DRC, Lebanon, Malawi, Nigeria, Syria, Tanzania
Inadequate and ineffective technical and financial evaluations	10	Bangladesh, DRC, Lebanon, Malawi, Nigeria, Syria, Tanzania
Ineffective contract management and vendor payment	7.1	Bangladesh, Lebanon, Malawi, Nigeria, Syria, Tanzania
Inoperative vendor management, incompatible functions and ineffective recordkeeping	25.9	Bangladesh, DRC, Lebanon, Malawi, Nigeria, Syria, Tanzania
Consequence: The gaps impacted on the integrity, fairness, transparency of the procurement processes, impeded competition, prevented the Organization from obtaining value for money and increased the risk of financial losses and fraud.		

Partner compliance with bid solicitation and evaluation processes

26. Partners in Bangladesh and Nigeria misused the Request for Quotation modality, in breach of their established thresholds for solicitation. In Malawi and Syria, competition was restricted for procurement totaling \$6.7 million due to several ‘derogation’ requests, single source bidding, limited advertisement

platforms and low numbers of technically compliant offers. For instance, a partner in Syria disqualified all but one bidder (with no justifications on file) for the purchase of domestic goods and hygiene items totaling \$2.3 million. In Malawi, three partners split purchases totaling \$461,271, which was a missed opportunity to access discounts from bulk purchases.

27. The audit identified other related issues: (a) in Nigeria there was an absence of competitive bidding in seven cases (\$2.8 million); (b) a shorter bid submission period than required was applied in Nigeria and Syria and this impacted the number of bids received; (c) in four operations the receipt of bids was not managed well by partners, e.g., two partners did not segregate technical bids from financial ones and considered late bids in seven cases (\$3.1 million); (d) in Malawi and Nigeria partners did not have documentation to evidence that they considered only bids that were received by the closing date and time; (e) in Syria two partners did not adequately document the opening of financial bids; and (f) inadequate segregation of duties was noted in Nigeria regarding a partner's procurement committee that also opened bids.

28. Partners did not maintain adequate documentation to support their decisions. Six partners in Nigeria and Syria did not have documentation and/or could not support their decisions to disqualify vendors at the technical stage for 37 procurement activities (\$6 million). In 18 cases, partners did not have documentation to evidence that there was no simultaneous opening of technical and financial bids. The audit also identified instances where procurement decisions could not be justified: (a) seven partners in Malawi and Nigeria failed to select the lowest bids resulting in lost savings of \$35,922; (b) five partners in Bangladesh lacked documentation to support their selection of vendors amounting to \$582,510; (c) three partners in Malawi and Syria were unable to support the allocation of items amounting to \$327,240 to two vendors; and (d) there was no comparative bid analysis for three cases totaling \$64,050 in Malawi and Syria.

29. Seven partners in Bangladesh, Nigeria, Syria and Tanzania did not conduct market research and price comparisons and this resulted in foregone savings of \$1.7 million. This arose from: (a) price differences in items procured within proximate periods; (b) vendors charging higher than those in the frame agreements; and (c) partners paying higher prices than what was charged to other partners/UNHCR. For instance, there were substantial price differences, i.e., 33 to 300 per cent in Syria for medical equipment and 54 to 1,452 per cent in Nigeria for medicines. This raises the risk that prices were at artificially non-competitive levels, as they could not be effectively justified, e.g., by inflation and currency devaluation.

30. Other issues included:

- Inadequate segregation of incompatible procurement functions: partners in Nigeria, Bangladesh and Malawi had procurement staff conducting and overseeing related functions, i.e., receiving, opening, evaluating and approving bids. In Syria, the same staff performed both technical and financial evaluations of bids.
- Two partners in Syria purchased from the same restricted set of bidders. Eleven partners in four operations did not send regret letters to unsuccessful vendors; these letters are necessary to provide feedback to vendors and for proper communication of UNHCR commitment to fairness and transparency in procurement.

Contract management by partners

31. Gaps in partners' management of contracts affected the timely delivery and safekeeping of quality inputs for programme implementation. In Malawi, a partner made full payment (\$315,972) to a vendor that did not complete a health center expansion project; and water-point fencing materials (\$128,508) were not

safeguarded from theft and wear and tear. Further, partners could not produce the purchase orders for 22 procured inputs totaling \$166,805, thus making it difficult to determine if the inputs were delivered in full, on time and in accordance with needs and specifications. Partners in Malawi and Nigeria did not have delivery and/or goods receipt notes to evidence receipt for 37 purchases (\$483,130). In Malawi and Syria, three partners withheld only 5 per cent retention fee, instead of 10 per cent per the partner/UNHCR rules, for three purchases totaling \$647,371.

32. One partner in Bangladesh did not manage vehicle rentals totaling \$900,000 in a prudent manner. For example, it rented 45 and 38 vehicles daily in January 2021 and November 2020 respectively. This not only exceeded its requirements of 13-25 in other months, but instances were noted where the rented vehicles remained unused for several months. The overtime records maintained by the same partner showed that bus drivers worked for 24 hours a day and without a break for months. Another partner's vehicle numbers and usage in the summary sheet did not match the numbers in the detailed day-wise lists.

33. Three partners in Lebanon and Syria in 31 cases made unjustified large and/or unusual advance payments (ranging from 50 to 100) for contracts amounting to \$3.7 million. By doing so, partners were pre-financing vendors without passing the benefits to UNHCR. One partner in Nigeria had only informal cash receipts to support payments totaling \$700,000. Another partner lacked support for payments to hospitals totaling \$47,241 for medical referrals of PoCs.

Vendor management by partners

34. The audit identified the following gaps:

- Ten partners in five operations who conducted procurements totaling \$11.6 million did not have a functioning vendor management system. Partners were not conducting performance evaluations to ensure that vendors had fulfilled their contractual obligations in relation to quality, quantity and timely delivery of inputs.
- Partners in six operations did not maintain proper procurement records, thereby negatively impacting audit trail, transparency and integrity of the vendor management process. Procurement files did not always include the required documentation supporting the bidding process and vendor selection, goods receipt notes, project completion reports, vendor invoices, vendor evaluations and regret letters. Procurement files were not chronologically arranged and indexed at eight partners in Malawi, Nigeria and Syria.

Monitoring of partner procurement

35. The above weaknesses reflected gaps in monitoring and oversight at country operations and Regional Bureaux respectively. While the country operations' financial verifications were aligned with the monitoring frequency and mode specified in the monitoring plans, the verifications lacked scale (only three cases reviewed on average) and depth and quality, with their focus being on checking for compliance issues. This was because verifications were mainly conducted by Project Control staff without the involvement of Supply staff. The verifications may also have been impacted by restrictions caused by the COVID-19 restrictions, with reviews being conducted remotely.

36. Weaknesses in partner procurement were attributed to inadequate partner procurement capacity, disregard of procurement rules, and inadequate and ineffective monitoring by country operations. UNHCR noted that some partners worked in a challenging operational context (e.g., in Syria), but OIOS believed that partners could have made more efforts to comply with procurement rules and sought UNHCR approval for exceptions.

- (4) The UNHCR Division of Strategic Planning and Results, in coordination with the Regional Bureaux, should strengthen the role of country operations over procurement conducted by partners by: (a) identifying procurement risks inherent to partners’ activities for timely mitigation; (b) implementing risk-based monitoring with sample coverage based on partner risk profiles; and (c) ensuring Supply Officers participate in reviews by Multi-Functional Teams.**

UNHCR accepted recommendation 4 and stated that in new policies and procedures to be promulgated in 2023, DSPR will clarify and document the monitoring, oversight and support responsibilities of the Regional Bureaux with regard to procurement through partners. DSPR will provide guidance for Regional Bureaux and Country Operations (including Multi-Functional Teams and Supply Officers) on: (i) risk assessments relating to procurement by partners; (ii) carrying out verifications as one form of risk mitigation to be carried out when a Partner is to conduct significant procurement activities; (iii) how to carry out verifications (including expected sampling levels to provide assurance).

D. Fraud prevention and detection

Improved monitoring and oversight of partner’s fraud prevention and detection arrangements in procurement

37. Partner management had the primary responsibility of preventing and detecting fraud by building a control environment that identifies fraud risks and taking actions to mitigate them. However, the audit noted that the controls in six country operations (Bangladesh, DRC, Malawi, Nigeria, Syria, Tanzania) were ineffective in preventing and detecting fraud in procurement conducted by partners on behalf of UNHCR. Gaps in procurement controls and unethical practices exposed UNHCR funds to risks of fraud and misappropriation.

38. Fraud prevention arrangements were not implemented among 12 partners in four operations (DRC, Malawi, Syria, Tanzania) that purchased goods and services totaling \$89.4 million. Contrary to procurement rules, partner staff involved in procurement processes: (a) did not consistently file declarations of impartiality and confidentiality necessary to mitigate fraud risks, unethical conduct and conflict of interests; and (b) had not conducted regular training/refresher courses on the code of conduct and related themes on fraud and corruption. Partner staff in DRC and Tanzania did not demonstrate that they had an awareness of anti-fraud measures necessary to prevent, detect and report fraud and unethical behaviors.

39. In reviewing procurement activities with a combined value of \$3 million, the audit identified red flags at five partners in four countries (Bangladesh, DRC, Nigeria, Tanzania) and concluded that fraud detection mechanisms were ineffective in these cases. For instance, in Nigeria, contracts totaling \$2.7 million at one partner had strong indications of fraud, i.e., systematic fabrication of documents to create the perception of competitive bidding; vendors quoting the exact unit prices in budgets, which reflected that confidential information had been leaked to them; and conducting business with unregistered vendors and one that could not be located at the listed physical address. This matter was referred to the Inspector General’s Office for investigation. Another partner in Nigeria also had the winning bidder quoting the same unit prices as the budget in three cases totaling \$21,675.

40. In Bangladesh, two partners awarded contracts totaling \$253,229 to sister entities, which was unethical considering the conflict of interest situation that should have been brought to the country operation’s attention for approval. One of two partners also charged Partner Integrity Capacity Support

Costs (PICSC)¹ amounting to \$51,513 to UNHCR for salaries of advisers that were unrelated to the UNHCR projects. Further, at one partner in DRC, the two unsuccessful bidders consistently quoted 10 and 15 per cent higher than the winning bidder's quotations in all the 180 items of medical supplies worth \$141,000. In Tanzania, a partner awarded contracts for the supply of goods and services to three companies that were owned by the same person; this information could be easily seen on the vendors' invoices but went undetected by the partner and country operation.

41. The above weaknesses occurred due to inadequate due diligence and fraud prevention and detection mechanisms tailored to assessed risk. Hence, UNHCR funds entrusted to partners for procurement of goods and services were not adequately safeguarded. This raised the risk of loss of resources, reputation and stakeholder/donor confidence.

(5) To safeguard UNHCR funds entrusted to partners for procurement, the UNHCR Division of Strategic Planning and Results, in coordination with the Regional Bureaux, should strengthen oversight over the monitoring by country operations of partners' implementation of due diligence and fraud prevention and detection mechanisms tailored to assessed risk.

UNHCR accepted recommendation 5 and stated that in new policies and procedures to be promulgated in 2023, DSPR will strengthen its monitoring and oversight in ensuring that country operations effectively monitor partner's implementation of fraud prevention and detection arrangements and exercise due diligence in procurement actions duly tailored to assessed risk to safeguard UNHCR funds entrusted to them.

E. Governance and oversight at headquarters

Need to clarify Headquarters Divisions' responsibilities for oversight and support of partner procurement

42. According to the 2018 Instruction, monitoring of compliance with the Instruction must be conducted at the organizational level. While some aspects of the Instruction may have been superseded by changes occasioned by UNHCR's decentralization and regionalization, compliance gaps at country and Regional Bureau level called for strengthened Headquarters level supervision to address identified unmitigated risks in procurement conducted by partners.

43. The 2018 Instruction requires UNHCR to have an operational Headquarters Divisional Multi-Functional Team comprising of SMS and IMAS to review field operations and support Regional Bureaux in enhancing compliance. SMS conducted PQP for partners but was not as involved in overseeing and supporting Regional Bureaux and country operations in executing their procurement related tasks; nor in assessing the feasibility of including partner procurement in CSPs as required. SMS stated that decentralization and regionalization had shifted resources and accountabilities for its roles to the Regional Bureaux. On the other hand, IMAS conducted its four responsibilities, i.e., (a) commissioning and analyzing findings of project audits, although there was no evidence that actions were taken to address issues identified by audits; (b) dissemination of the 2018 Instruction to partners and UNHCR; and (c) monitoring and reviewing committees on partner selection and the inclusion of procurement criteria in the selection process; and (d) providing technical support to the Regional Bureaux and reviewing selected operations.

¹ The purpose of PICSC is to enhance integrity, accountability, oversight, administrative and other support costs

44. The 2018 Instruction predated the establishment of Regional Bureaux and thus did not consider their roles in supporting and overseeing partner procurement. In the absence of clear guidance, the Bureaux did not conduct detailed reviews of selected operations to assess partners' results, but in 2020/2021 focused on: (a) compliance with the 2018 Instruction broad requirements, e.g., if partners had valid PQPs and procurement assessments were conducted; (b) review of the country operations' processes for delegating procurement to partners; (c) sharing related guidance, training materials and good practices among country operations and partners; and (d) missions and virtual meetings to discuss procurement risks and follow up on implementation of recommendations made by the project auditors and the Multi-Functional Teams. Two Regional Bureaux stated that partner procurement was not a priority area and partner procurement risks were well mitigated. OIOS audits however showed that risks were not sufficiently mitigated.

45. OIOS reviewed 23 Internal Control Questionnaires (ICQ) from the project auditors for partners reviewed in four operations in Bangladesh, Malawi, Nigeria and Syria. In nine ICQs, the findings of the project audits were consistent with OIOS findings. In all the remaining 14, the project auditors did not identify any control weaknesses on procurement whereas OIOS identified substantial shortcomings in its review. This indicated the need to strengthen the review of procurement transactions during project audits.

(6) The UNHCR Division of Strategic Planning and Results should strengthen the role of UNHCR relevant second line entities by: (a) clarifying their respective roles in the Administrative Instruction on Procurement by Partners under Partnership Agreements in the context of decentralization and regionalization; and (b) ensuring that project auditors include a risk-based review of partner procurement in their scope of work.

UNHCR accepted recommendation 6 and stated that the recommendation would be addressed in the new policies and procedures to be promulgated in 2023.

IV. ACKNOWLEDGEMENT

46. 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) Anne Rwego
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STATUS OF AUDIT RECOMMENDATIONS

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

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The UNHCR Division of Strategic Planning and Results should, in consultation with the Division of Emergency, Security and Supply, strengthen the guidance for the procurement planning process so that: (a) plans accurately reflect UNHCR needs; (b) the most cost-effective vehicle for procuring goods and services is identified; and (c) Regional Bureaux have clarity on their role in overseeing and supporting procurement planning and implementation processes.	Important	O	Issuance and implementation of strengthened policies, instructions and guidance on procurement planning to ensure that: (a) plans accurately reflect UNHCR needs; (b) the most cost-effective method for procuring goods and services is identified; and (c) Regional Bureaux have clarity on their role in overseeing and supporting procurement planning and implementation processes.	31 December 2023
2	The UNHCR Division of Strategic Planning and Results should strengthen the due diligence conducted prior to delegating procurement to partners, including but not limited to ensuring that: (a) comparative advantage assessments are conducted; (b) a risk-opportunity lens is used to determine the level of procurement authority that can be delegated to partners; and (c) mechanisms are in place to ensure continuous monitoring and support of partners' procurement capacity.	Important	O	Implementation of strengthened arrangements for due diligence prior to delegating procurement to partners including: comparative advantage assessments; risk-based determination of the level of delegated procurement authority; and ensuring mechanisms are in place for continuous monitoring and support of partners' procurement capacity.	31 December 2023
3	The UNHCR Division of Strategic Planning and Results should, in consultation with the Division of Emergency, Security and Supply, strengthen guidance and tools for monitoring and reporting on alignment of partner procurement rules with UNHCR procurement principles, to inform	Important	O	Issuance and implementation of strengthened guidance and tools on alignment of partner procurement rules with UNHCR's key procurement principles to inform decisions on whether to revoke partner pre-qualification to procure when necessary.	31 December 2023

² Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

³ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

⁴ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁵ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

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

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
	decisions on whether to revoke partner pre-qualification to procure when necessary.				
4	The UNHCR Division of Strategic Planning and Results, in coordination with the Regional Bureaux, should strengthen the role of country operations over procurement conducted by partners by: (a) identifying procurement risks inherent to partners' activities for timely mitigation; (b) implementing risk-based monitoring with sample coverage based on partner risk profiles; and (c) ensuring Supply Officers participate in reviews by Multi-Functional Teams.	Important	O	Receipt of evidence that UNHCR have ensured implementation of the strengthened role of country operations as the first line over procurement conducted by partners by: (a) identifying procurement risks inherent to partners' activities for timely mitigation; (b) implementing risk-based monitoring with recommendations of sample coverage based on partner risk profiles; and (c) ensuring Supply Officers participate in reviews by Multi-Functional Teams.	31 December 2023
5	To safeguard UNHCR funds entrusted to partners for procurement, the UNHCR Division of Strategic Planning and Results, in coordination with the Regional Bureaux, should strengthen oversight over the monitoring by country operations of partners' implementation of due diligence and fraud prevention and detection mechanisms tailored to assessed risk.	Important	O	Receipt of evidence that UNHCR second line have implemented strengthened monitoring and oversight for ensuring that country operations effectively monitor partner's implementation of fraud prevention and detection arrangements and exercise of due diligence in procurement actions duly tailored to assessed risk.	31 December 2023
6	The UNHCR Division of Strategic Planning and Results should strengthen the role of UNHCR relevant second line entities by: (a) clarifying their respective roles in the Administrative Instruction on Procurement by Partners under Partnership Agreements in the context of decentralization and regionalization; and (b) ensuring that project auditors include a risk-based review of partner procurement in their scope of work.	Important	O	Receipt of evidence of the implementation of the strengthened role of second line entities including: clarifying their respective roles on procurement undertaken by partners in the context of decentralization and regionalization; and ensuring that project auditors include a risk-based review of partner procurement in their scope of work.	31 December 2023

APPENDIX I

Management Response

Management Response

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

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
1	The UNHCR Division of Strategic Planning and Results should, in consultation with the Division of Emergency, Security and Supply, strengthen the guidance for the procurement planning process so that: (a) plans accurately reflect UNHCR needs; (b) the most cost-effective vehicle for procuring goods and services is identified; and (c) Regional Bureaux have clarity on their role in overseeing and supporting procurement planning and implementation processes.	Important	Yes	Primary: Head IMAS (DSPR) Support: Head SMS (DESS)	31 December 2023	DSPR and DESS are updating relevant policies and procedures and will be issuing revised instruments in the course of 2023 with the roll-out of new systems. The revised policies and procedures will provide greater clarity about how operations can and should align (i) the procurement needs of UNHCR; and (ii) the procurement needs of Partners for the delivery of results under Partnership Agreements. The revised instructions and guidance will clarify what role the Bureaux play in their oversight role in reviewing the extent to which procurement/supply plans are comprehensive of forecast requirements and identify the most effective organization(s) to meet procurement/supply requirements.
2	The UNHCR Division of Strategic Planning and Results should strengthen the due diligence conducted prior to delegating procurement to partners, including but not limited to ensuring that: (a) comparative advantage assessments are conducted; (b) a risk-opportunity lens is used to determine the	Important	Yes	Primary: Head IMAS (DSPR)	31 Dec 2023	DSPR will address the recommendation through the issuance of updated policies and procedures in 2023.

⁶ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

⁷ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Rec. no.	Recommendation	Critical⁶/ Important⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
	level of procurement authority that can be delegated to partners; and (c) mechanisms are in place to ensure continuous monitoring and support of partners' procurement capacity.					
3	The UNHCR Division of Strategic Planning and Results should, in consultation with the Division of Emergency, Security and Supply, strengthen guidance and tools for monitoring and reporting on alignment of partner procurement rules with UNHCR procurement principles, to inform decisions on whether to revoke partner pre-qualification to procure when necessary.	Important	Yes	Primary: Head IMAS (DSPR) Support: Head SMS (DESS)	31 Dec 2023	In new policies and procedures to be promulgated in 2023, DSPR will ensure that the findings of verifications and audits by project control and multi-functional teams relating to procurement are captured, made available to oversight functions (including the Bureaux and HQ Divisions) and that mechanisms exist to (i) refer to the partner instances of possible non-compliance by the partner's staff; or (ii) trigger a re-assessment of a partner's PQP in appropriate cases.
4	The UNHCR Division of Strategic Planning and Results, in coordination with the Regional Bureaux, should strengthen the role of country operations over procurement conducted by partners by: (a) identifying procurement risks inherent to partners' activities for timely mitigation; (b) implementing risk-based monitoring with sample coverage based on partner risk profiles; and (c) ensuring Supply Officers participate in reviews by Multi-Functional Teams.	Important	Yes	Primary: Head IMAS (DSPR) Support: Head SMS (DESS)	31 Dec 2023	In new policies and procedures to be promulgated in 2023, DSPR will clarify and document the monitoring, oversight and support responsibilities of the Regional Bureaux with regard to procurement through partners. DSPR will provide guidance for Regional Bureaux and Country Operations (including Multi-Functional Teams and Supply Officers) on: (i) risk assessments relating to procurement by partners; (ii) carrying out verifications as one form of risk mitigation to be carried out when a Partner is to conduct significant procurement activities; (iii) how to carry out verifications (including

Rec. no.	Recommendation	Critical⁶/ Important⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
						expected sampling levels to provide assurance)
5	To safeguard UNHCR funds entrusted to partners for procurement, the UNHCR Division of Strategic Planning and Results, in coordination with the Regional Bureaux, should strengthen oversight over the monitoring by country operations of partners' implementation of due diligence and fraud prevention and detection mechanisms tailored to assessed risk.	Important	Yes	Primary: Head IMAS (DSPR) Support: Head SMS (DESS)	31 Dec 2023	In new policies and procedures to be promulgated in 2023, DSPR will strengthen its monitoring and oversight in ensuring that country operations effectively monitor partner's implementation of fraud prevention and detection arrangements and exercise due diligence in procurement actions duly tailored to assessed risk to safeguard UNHCR funds entrusted to them
6	The UNHCR Division of Strategic Planning and Results should strengthen the role of UNHCR relevant second line entities by: (a) clarifying their respective roles in the Administrative Instruction on Procurement by Partners under Partnership Agreements in the context of decentralization and regionalization; and (b) ensuring that project auditors include a risk-based review of partner procurement in their scope of work.	Important	Yes	Primary: Head IMAS (DSPR) Support: Head SMS (DESS)	31 Dec 2023	The recommendation will be addressed in the new policies and procedures to be promulgated in 2023.