



INTERNAL AUDIT DIVISION

REPORT 2013/132

Audit of local procurement of goods and services in the United Nations Assistance Mission in Afghanistan

Overall results relating to the effective management of local procurement of goods and services in the United Nations Assistance Mission in Afghanistan were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

19 December 2013
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AUDIT REPORT

Audit of local procurement of goods and services in the United Nations Assistance Mission in Afghanistan

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of local procurement of goods and services in the United Nations Assistance Mission in Afghanistan (UNAMA).
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. The UNAMA Procurement Section was responsible for the local procurement of goods and services, and the procurement process was governed by the United Nations Procurement Manual. The Procurement Section was headed by a Chief Procurement Officer at the Field Service-7 level, who reported to the Chief Administrative Services, and had 13 staff based in Kabul and Kuwait.
4. The UNAMA approved budget for local procurement for 2012 and 2013 was \$68 million and \$51 million respectively. UNAMA processed 680 purchase orders valued at \$75.4 million between 1 January 2012 and 30 June 2013.
5. Comments provided by UNAMA are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNAMA governance, risk management and control processes in providing reasonable assurance regarding the **effective management of local procurement of goods and services in UNAMA**.
7. The audit was included in the 2013 OIOS risk-based work plan due to the operational and financial risks relating to the procurement process.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide the management of local procurement of goods and services; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.
10. OIOS conducted this audit in September and October 2013. The audit covered the period from 1 January 2012 to 30 June 2013 and included a review of 45 purchase orders valued at \$41.3 million.
11. 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

12. The UNAMA governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of local procurement of goods and services in UNAMA**. OIOS made two recommendations to address issues identified. UNAMA had established a Local Committee on Contracts, which functioned effectively and referred cases that exceeded its threshold to the Headquarters Committee on Contracts for review. Self-accounting units prepared acquisition plans on a timely basis, procurement authority was duly delegated and complied with, and tender opening committees were functioning effectively. The Procurement Section also used appropriate solicitation methods, and adequate and effective controls were in place over the source selection process. However, UNAMA needed to: (a) provide adequate time for vendors to respond to solicitations, and take action to increase vendor response rates; and (b) strengthen controls over the maintenance of registers for recording securities received from vendors.

13. The initial overall rating was based on the assessment of the key control presented in Table 1. The final overall rating is **partially satisfactory** as implementation of two important recommendations 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 local procurement of goods and services in UNAMA	Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Acquisition plans for 2012/2013 were prepared in a timely manner

14. The Procurement Manual required acquisition planning to be conducted to ensure the effective and timely solicitation of bids and proposals, award of contracts and delivery of goods and services needed by the Mission.

15. UNAMA requisitioning units, in cooperation with the Procurement Section, prepared acquisition plans for 2012 and 2013 on a timely basis, and updated them in the Mercury system as soon as requisitions were raised and/or requirements changed. Overall, adequate and effective controls were established by UNAMA over the acquisition planning process.

Appropriate delegation of procurement authority was made to the relevant officials

16. The Procurement Manual required that only those officials with delegated procurement authority should enter into financial commitments on behalf of the United Nations.

17. The Under-Secretary-General of the Department of Field Support had delegated procurement authority to the UNAMA Chief of Mission Support, and the Chief of Mission Support had sub-delegated appropriate procurement authority to staff of the Procurement Section to enable them to carry out their functions effectively. UNAMA periodically reviewed and updated the delegated authorities due to changes in staffing, and informed the Department of Field Support of the changes made. A review of 45 purchase orders indicated that staff performed procurement activities in accordance with their approved delegations. Overall, OIOS was satisfied that adequate and effective controls were in place to ensure that the levels of delegated authority were complied with.

A Local Committee on Contracts was constituted to review procurement cases

18. The Procurement Manual required the establishment of a Local Committee on Contracts to review proposed procurement actions and advise the Chief of Mission Support whether they were in compliance with the relevant financial regulations and rules, procurement policies and guidelines.

19. The UNAMA Local Committee on Contracts was established in accordance with the guidelines provided in the Procurement Manual. All the members had received the mandatory basic training on the procurement process. Between 1 January 2012 and 30 June 2013, the Committee reviewed 65 cases, of which five were returned for further clarification and review and decisions on four others were deferred. Twelve cases whose values exceeded the Local Committee on Contracts' threshold were forwarded to the Headquarters Committee on Contracts for review. A review of 21 cases processed by the Local Committee on Contracts indicated that recommendations were made following detailed discussions. All cases were documented in the electronic Committee on Contracts system and copies included in the respective case files. Overall, OIOS concluded that the Local Committee on Contracts was functioning effectively.

Tender opening committees were operational in Kabul and Kuwait

20. The Procurement Manual required tender opening committees to be established to receive submissions from vendors in response to formal methods of solicitation.

21. UNAMA established two tender opening committees, one in Kabul and another in Kuwait. These committees were appropriately constituted and functioned in compliance with the Procurement Manual and UNAMA standard operating procedures. UNAMA ensured that dedicated facsimile machines and secure tender boxes were available to safeguard bids and proposals received prior to their opening. OIOS concluded that adequate controls were established to receive and open solicitation documents and to ensure their confidentiality.

Insufficient time was allowed for some formal solicitations

22. The Procurement Manual required procurement officers to ensure that prospective vendors were given sufficient time to review solicitation documents and formulate appropriate responses.

23. A review of 23 formal solicitations indicated that in four solicitations, insufficient time had been provided for vendors to respond; only one or two responses were received. UNAMA required vendors to respond within two to eight days for commodities/services such as communication services and fuel valued between \$25,000 and \$2.8 million. UNAMA advised that shorter response times were given due to operational requirements, and attributed low response rates to reluctance among some vendors to deliver within Afghanistan due to security concerns. Despite the challenging operational environment, UNAMA needed to further analyze the reasons for low participation of vendors and ensure that sufficient time was given to them to respond to formal solicitations.

(1) UNAMA should use the timelines recommended in the Procurement Manual to allow vendors sufficient time to respond to solicitations.

UNAMA accepted recommendation 1 and stated that wherever possible, it adhered to recommended timelines in accordance with the Procurement Manual. However, exceptions occasionally occurred for specific/non-standard requirements or prevailing market conditions. Recommendation 1 remains open pending OIOS verification that UNAMA is adhering to timelines recommended in the Procurement Manual.

Adequate controls for evaluation of offers and award of contracts were established

24. A review of 23 cases that required a formal solicitation process indicated that UNAMA had followed the relevant requirements in the Procurement Manual. UNAMA prepared and used source selection plans, issued appropriate solicitation documents, and when required, convened technical evaluation committees to assess offers received against established criteria.

25. Additionally, a review of 10 cases for procurement whose value was less than \$40,000, which required an informal solicitation process, indicated that appropriate procedures, including technical clearances by the concerned requisitioning units, were followed. OIOS concluded that UNAMA had adequate and effective controls over the source selection process, evaluation of offers and award of contracts.

The register of securities was not regularly updated

26. The Procurement Manual required performance securities to be obtained from vendors when necessary to ensure that a source of compensation was available if vendors failed to meet their contractual obligations. All security instruments received were to be stored and safeguarded in a secure location.

27. The UNAMA Finance Section maintained custody of all security instruments from vendors, and documented them in a register. However the register of securities was not up-to-date, and did not include a comprehensive list of all guarantees received from and returned to the Procurement Section. The Finance Section also did not record the expiry dates of guarantees to monitor their validity.

(2) UNAMA should implement adequate controls over the maintenance and review of the security instruments register to ensure that the register is always current.

UNAMA accepted recommendation 2 and stated that the Finance and Procurement sections would implement a procedure that adequately tracked the receipt, hand-over and follow-up of security instruments. The Chief of Mission Support issued on 10 December 2013 an inter-office memorandum to all concerned staff to ensure compliance with the revised procedure. Recommendation 2 remains open pending receipt of a copy of the up-dated security instrument register.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of local procurement of goods and services in the United Nations Assistance Mission in Afghanistan

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNAMA should use the timelines recommended in the Procurement Manual to allow vendors sufficient time to respond to solicitations.	Important	O	OIOS verification that UNAMA is adhering to timelines recommended in the Procurement Manual.	1 March 2014
2	UNAMA should implement adequate controls over the maintenance and review of the security instruments register to ensure that the register is always current.	Important	O	Receipt of a copy of the up-dated security instrument register.	1 February 2014

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by UNAMA

APPENDIX I

Management Response

Management Response

Audit of local procurement of goods and services in the United Nations Assistance Mission in Afghanistan

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNAMA should use the timelines recommended in the Procurement Manual to allow vendors sufficient time to respond to solicitations.	Important	Yes	Chief Procurement Office	1 March 2014	Wherever possible UNAMA adheres to recommended timelines in accordance with the Procurement Manual notwithstanding that exceptions occasionally occur i.e. for specific/non-standard requirements, immediate operational requirements or prevailing market conditions.
2	UNAMA should implement adequate controls over the maintenance and review of the security instruments register to ensure that the register is always current.	Important	Yes	All self- accounting units, Chief Finance Officer & Chief Procurement Officer.	1 February 2014	UNAMA Finance and Procurement Sections are setting up augmented registration system spreadsheet which will show dates for the receipt, handover and follow up of security instruments. An interoffice memorandum from the Chief of Mission Support will be issued to all concerned for continuous control over the maintenance and review of security instrument register particularly by Finance and Procurement Sections.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.