



INTERNAL AUDIT DIVISION

REPORT 2022/083

Review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees

**The Representation needed to strengthen
individual staff accountability over compliance
with UNHCR procurement rules to ensure best
value is obtained on purchases**

21 December 2022

Assignment No. AR2022-113-01

Review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted a review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees (UNHCR). The objective of the review was to identify the root causes for persistent gaps in controls over procurement and contract management implemented by the UNHCR Representation in Zambia. The audit covered the period from 1 January 2020 to 31 August 2022.

The Representation's procurement activities were impacted by the persistence of a culture of non-compliance with procurement rules and established processes, and the fact that risk management was also not yet fully embedded in Representation management's decision-making.

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

- Strengthen individual staff accountability for compliance with UNHCR rules by instituting comprehensive reviews over direct procurement activities by Programme, Finance and Project Control, and holding staff to account for identified cases of non-compliance.
- Develop rolling procurement plans that support the prioritization of purchases as funding becomes available and that: (i) are informed by comprehensive needs assessments; (ii) directed by comparative advantage and cost-benefit analyses on which partnerships to go with to expand its supply capacity; and (iii) build on effective engagement with other United Nations Agencies in the operations management team to proactively identify opportunities for partnerships.
- (i) Address supply staff capacity issues so they can deliver related activities effectively; (ii) ensure clear division of responsibilities among supply staff to drive accountability; and (iii) implement a performance framework detailing suitable indicators and targets against which the Supply Unit's performance is reported and measured.
- Strengthen its first line of defense role by: (i) recruiting a Deputy Representative experienced in operations; (ii) instituting supply coordination mechanisms across relevant units to review available data for decision making; (iii) reinforcing the Local Committee on Contracts to provide effective oversight over the whole procurement process; and (iv) updating its risk register, with adequate actions to mitigate procurement related risks systematically.
- Develop and implement a plan to oversee and support the Representation as the latter builds its supply capacity and controls.
- Develop guidance over the planning, management and supervision of construction work within UNHCR.

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

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Review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted a review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. The UNHCR Representation in Zambia (hereinafter referred to as ‘the Representation’) was established in 1968 to provide refugees, asylum seekers and other persons of concern (PoCs) with protection and humanitarian assistance. As of 31 August 2022, the total population of concern was 95,677.
3. The Representation recorded a total expenditure of \$13.5 and \$14.2 million in 2020 and 2021 respectively, and a budget of \$12.7 million in 2022 including operational budget as well as staffing and administrative cost/expenditures. It purchased goods and services in the period 1 January 2020 to 31 August 2022 totaling \$7.9 million, of which \$5.8 million was sourced locally and \$2.1 million through Headquarter Supply Management Service. The main procured goods and services were office administration and supplies (\$1.5 million); fuel (\$815,000); construction and rehabilitation services (\$681,000); medical supplies and medicines (\$537,000); transport for repatriation of persons of concern (\$528,000); non-food items (\$467,000); and tires and vehicle spare parts (\$245,000). The Representation’s operational level budget will decrease by 50 per cent in 2023 and this will affect available funding for procurement going forward.
4. OIOS has in three consecutive audits, i.e., AR/2016-025 (2016), AR/2018-081 (2018) and AR/2021-083 (2021), identified procurement related weaknesses and made recommendations to strengthen controls over procurement and construction and rehabilitation works. Except in one case, all procurement related recommendations were closed based on documentary evidence that the issues had been resolved, but subsequent audits could not confirm any sustained improvement in controls. The 2018 report included a critical recommendation related to construction that was closed without implementation with management accepting the risk. Instead of making any further recommendations in the 2021 audit report, OIOS determined that it would conduct a dedicated review of the Representation’s procurement and construction activities to identify the root causes for persistent gaps in controls over procurement and contract management.
5. The Representation was headed by a Representative at the D1 level and had 73 positions and 20 affiliate workforces and surge deployed staff, with a branch office in Lusaka, two field offices (Kawambwa and Solwezi) and one field unit in Kaoma. The Representation had five supply staff of whom one was at the professional level (P3), three at General Service level and a United Nations Volunteer. The Representation had also recruited an Associate supply officer (P2) on a temporary arrangement. At the time of the review, one General Service position was vacant. The Representation is accountable to the Regional Bureau for Southern Africa, which provided support and/or management oversight.
6. Comments provided by UNHCR are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the review was to identify the root causes of persistent gaps in controls over procurement and contract management implemented by the UNHCR Representation in Zambia.

8. This audit was included in the 2022 risk-based work plan of OIOS due to the pervasiveness of procurement related issues in previous audit reports (AR/2016-025 (2016), AR/2018-081 (2018) and AR/2021-083 (2021)).

9. OIOS conducted this review from September to November 2022. The audit covered the procurement conducted by the Representation directly, for the period from 1 January 2020 to 31 August 2022. The review did not cover the procurement conducted by partners since this is the subject of another OIOS audit.¹

10. The audit methodology included: (a) interviews with key personnel, (b) review of relevant documentation, (c) analytical review of data, including financial data from Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system; and (d) judgmental selection and testing of a sample of procurement activities related to construction, fuel, medicines, non-food items (NFI) and administration. As part of this review, OIOS also benchmarked UNHCR procurement practices against three other United Nations agencies operating in Zambia.

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

III. AUDIT RESULTS

A. Compliance with UNHCR policies and procedures

Need to strengthen individual staff accountability to build a culture of compliance with UNHCR rules

12. Purchases of goods and services (excluding purchases by partners) constituted a third of the Representation’s overall programme expenditure. Chapter 8 of the UNHCR Manual sets out the framework against which purchases should be conducted. Generally, the established rules provided adequate guidance for procurement and supply chain management except for construction, which required additional controls that had not been developed by UNHCR. In response to a related critical recommendation in the 2018 audit, the Representation took the initiative to develop guidance and instituted structures such as an oversight committee to strengthen controls over construction and rehabilitation works. However, even with these initiatives, the Representation’s structures and processes needed further strengthening to effectively plan, manage and monitor construction works. A related recommendation has been raised under Section E of this report.

13. Table 1 reflects a summary of recurring findings of the last three OIOS audits and current procurement review. Procurement activities were not timely, did not always achieve best value for money, were of inadequate quality and sometimes resulted in loss of resources. Additionally, lapses in controls and the manipulation of procurement processes gave specific suppliers an unwanted or unfair advantage and raised the risk of procurement fraud.

Table 1: Summary of audit findings in the last three audits and the current procurement review

Findings	2016	2018	2021	2022
Related recommendations were	Important	Critical	Important	Important
Ineffective procurement planning resulting in requests for waivers to competitive bidding	✓	✓	✓	✓

¹ Audit of procurement undertaken by partners using UNHCR funds (AR2021-168-01)

Findings	2016	2018	2021	2022
Related recommendations were	Important	Critical	Important	Important
Ineffective vendor review mechanisms thus Representation lacking an objective basis for identifying vendors	✓	✓		✓
Purchase of goods and services above the \$4,000 threshold without raising a purchase order		✓		
Unauthorized procurement activities as evidenced by ex-post facto approvals sought	✓	✓	✓	
Issues with the bidding request and bid opening process	✓	✓		✓
Introduction of new criteria in evaluations	✓	✓	✓	✓
Disqualification of valid bids on wrong grounds		✓	✓	✓
Weak oversight by instituted committees	✓	✓	✓	✓
Weak contract management	✓	✓	✓	✓
Issues with construction		✓	✓	✓

14. OIOS reviewed 43 purchase orders that were eligible for some form of competition and identified the following anomalies.

- The Representation primarily followed the request for quotation (RFQ) method that only considered financial aspects in identifying suppliers, even when Invitation to Bid (ITB) was the most appropriate due to the need to consider technical aspects; that was the case for construction related procurement. The justifications for not using ITB were that the set threshold was \$250,000, and vendor non-responsiveness. This not only restricted bidding but resulted in a limited number of bids and the selection of suppliers that failed to deliver in accordance with the contract. This could have been prevented through pre-qualification of vendors.
- Although RFQ was followed, the Representation did not always select the lowest bidder and did not justify such decisions; that was the case for the procurement of educational tablets (\$23,706) and licenses (\$6,341). In other cases, the disqualification of the lowest bidder on the basis of lack of experience and/or capacity to deliver showed that the ITB method of solicitation would have been more suitable.
- For the few ITBs on file, solicitation documents did not always have well-articulated criteria. Additionally, technical evaluations for construction contracts did not consistently follow set criteria and sometimes excluded and/or introduced new criteria during evaluations. After evaluations were done, staff also verified bidders and disqualified the most responsive bidders on some ground not listed in the criteria.
- Construction works that were split and awarded to different contractors created inefficiencies as the Representation had to pay mobilization and demobilization costs for each contract. For instance, four vendors were awarded contracts to construct 12 houses for unaccompanied minors (\$80,000); one for the building frame and the others for toilets, kitchens and doors. The Representation attributed this to design flaws of the construction project which was rectified by contracting additional contractors. The quality of works by the different contractors varied but was mostly poor, e.g., the doors were much shorter than installed frames, which created protection risks to the minors if in use.

15. The Representation's vendor management was ineffective in supporting procurement processes. Supply staff did not use the vendor database to identify potential bidders. They instead invited the same vendors to bid regardless of past performance. This was evident for construction works. Further, until the

arrival of the newly appointed Supply Officer in 2022, RFQ invitations were sent from staff email accounts, which raised the risk of bid manipulation. For instance, there was no evidence that invitations were sent to more than 30 vendors to bid for construction works, especially since only a handful of them responded every time.

16. The vendor database was not comprehensive, listed vendors had not been vetted prior to being registered and their performance was not consistently assessed after contracts were completed. For instance, the supplier of furniture (\$18,522) that failed to deliver the services in the required time remained in the database. OIOS questioned whether the Representation conducted proper due diligence since it could not locate several construction companies at their listed addresses, and they could not be reached on the telephones listed in their documents. The Head of Field Office also expressed frustration in reaching contractors that had significant delays on ongoing construction contracts as well as those that had abandoned their projects, e.g., the kitchens for the 12 houses and the fence for the transit center. One United Nations agency emphasized the need to have all vendors registered on the United Nations Global Marketplace, which ensured some basic vetting of company and registration documents. The 2021 Board of Auditors report included a recommendation in this regard.

17. OIOS could not rule out intentional deviation from required processes. For example, the 2018 OIOS audit raised a critical recommendation concerning two contractors that had breached their contracts causing financial losses to the Representation. However, the two contractors were not blacklisted and were awarded three other contracts totaling \$172,000 in the period under review. One project already had serious quality issues and the other two projects had been abandoned before they were completed.

18. The Supply Unit's recordkeeping was poor with key procurement documents unavailable in both soft and hard copy during the review. The Representation had to revert to staff that had left the operation to get documentation. Additionally, the Supply Unit incorrectly created purchase orders in the system: they all showed that one item was purchased and put the total value of the order as the unit price. Thus, OIOS could not reconcile prices and quantities in the purchase order to what was invoiced, paid, recorded as received and later expended. For instance, the fuel purchase orders that were prepared on an annual basis did not stipulate the volume of fuel to be delivered and thus could not be reconciled against the prepayments that were made on a quarterly basis and expenses recorded monthly. Further, there were several over and underpayments found in the sampled payment vouchers because invoice, receipt and purchase order could not be reconciled. The gap in purchase orders created challenges in doing the three-way matching of the purchase order, receipt of goods, and payment voucher. This raised the risk of fraud as quantities and amounts were difficult to reconcile.

19. UNHCR's programme manual² requires that the Representation mobilize Programme and Project Control staff to implement a monitoring plan over direct implementation. While a monitoring plan was shared, it was not comprehensive in reviewing direct implementation and did not drive responsibility and accountability in the supply function. The Representation established an oversight committee to strengthen individual and collective accountability across the operation and to prevent and mitigate risks associated to procurement and construction works; this was a good practice, however OIOS saw limited evidence of the oversight committee's convening meetings and addressing the pervasive issues identified in this and past audits.

20. The supply function was not considered in UNHCR's definition of: (i) delegated authority for managing structures and resources under the decentralized structure in UNHCR's resource allocation framework (RAF); and (ii) roles, accountabilities and authorities issued by the High Commissioner in 2019. Additionally, the RAF delegated authority to managers and staff without mechanisms in place to hold them

² Paragraph 2.5.7 of UNHCR Programme Manual (Chapter 4 UNHCR Manual)

to account when resources are misused, results not consistently achieved and/or UNHCR policies not complied with. Therefore, when supply staff deviated from required processes without proper justification, the basis for holding them to account was not strong and accountability was not pursued. For example, three staff members who were responsible for the gaps in procurement during the period under review were able to move to other UNHCR operations. The Regional Bureau and the Supply Management Service should work with the Representation to reinforce performance management and accountability for non-compliance with UNHCR procurement rules and established processes.

21. In its advisory on decentralization and regionalization (2021-01445), OIOS advised that UNHCR develop a comprehensive accountability framework that: (i) describes how organization-wide mechanisms and processes support the achievement of its mandate; (ii) supports the monitoring of and where necessary, amends delegated authorities; and (iii) provides a basis against which staff are held to account. The 2021 Board of Auditors report (issued in 2022) also concluded that there was a need to consolidate the 16 separate draft documents regarding roles, accountabilities and authorities into a comprehensive accountability framework and have it officially promulgated. The implementation of these advice and recommendations would address the issues related to accountability, thus no additional recommendation has been raised.

22. The culture of non-compliance noted above within the supply function reflected a failure by responsible staff to strictly adhere to UNHCR rules. Per the job descriptions, the responsibility to monitor the quality of the supply chain and ensure compliance with relevant rules fell with the Deputy Representative, the Supply Officer and Associate Supply Officers. This is covered in more detail in sections C and D below. The automation of supply processes under the Business Transformation Programme will assist in ensuring compliance.

(1) The UNHCR Representation in Zambia should strengthen individual staff accountability for compliance with UNHCR rules by instituting comprehensive reviews over direct procurement activities by Programme, Finance and Project Control, and holding staff to account for identified cases of non-compliance.

UNHCR accepted recommendation 1 and stated that the Representation had already started developing comprehensive monitoring plan that will be reviewed by the multi-functional team on a quarterly basis. The operation will once again look at the segregation of authority among program, supply, project control and finance to ensure the accountability and clarity of roles. Staff performance objectives will be related to the implementation of the procurement plan in accordance with applicable rules.

B. Strategic and operational planning

Need to strengthen strategic and operational planning over procurement

23. The Representation's multi-year, multi-partner protection and solutions strategy (2022-2024) provided direction on its protection and solution priorities. The Programme Unit was responsible for translating the Representation's strategic direction into action, i.e., who will be assisted, with what support, when, and how. The OIOS audit 2021-083 identified gaps in the Representation's conducting proper needs assessments to inform its programmes, and thus no additional recommendation is raised in this regard. This report however considers the consequences of inadequate needs assessments, especially when the Representation receives substantive resources towards the year end as reflected below.

24. The Supply Unit was supposed to support programme implementation through its acquisition and delivery of assistance to intended beneficiaries in a timely and cost-effective manner. However, it did not play a more strategic role in planning, managing and ensuring controls over supplies. For instance, the Unit

did not prepare comprehensive annual plans and thus procurement activities were conducted on an ad hoc basis. Purchases were not purposefully planned but primarily driven by the availability of funds and immediate needs, especially in cases the Representation received significant funding toward the year end. Consequently, the Representation conducted most purchases in the last quarter once funds were available and, in the absence of proper planning, this resulted in the accumulation of assets/items that were not immediately needed and/or used. This created inefficiencies as the purchases resulted in increased storage costs and funds being held unnecessarily in stock over long periods.

25. The Supply Unit also did not identify and conduct analyses to inform its strategic direction on larger and/or risky purchases, such as fuel and transportation of repatriated refugees that were in the range of \$1 million. Despite the high value, the Representation used RFQs to identify suppliers for fuel and transport for repatriation of Congolese refugees to their country of origin. Additionally, in both the cases of fuel and transportation procurement, there were no contractual documents in place detailing the delivery of services, which raised risks.

26. The Representation did not have frame agreements for frequently purchased items such as fuel, spare parts, transportation and toners. For instance, the Representation bought toner worth over \$70,000, which seemed excessive for the size of office and nature of operations and considering that a lot of the work was done virtually during the COVID-19 pandemic. Additionally, the purchases were made through RFQs although the purchases could have been consolidated through a frame agreement. The review also identified anomalies in one frame agreement for sanitary napkins totaling \$176,995. One primary vendor was selected alongside two backup suppliers if the former failed to deliver. However, the Representation awarded the full contract not to the primary vendor but to the second lowest bidder, without providing any justification and providing evidence that the primary vendor had failed to fulfil the contract.

27. The Representation also did not, as part of its strategic planning processes, proactively identify partnerships that would reinforce its procurement capacity and supply networks, thereby ensuring that it obtained best value. For instance, the Representation did not proactively seek opportunities to use other United Nations procurement processes as recommended under the mutual recognition principle. The Representation attended the United Nations Operations Management Team meetings but had limited involvement in related working groups. This was a missed opportunity to engage with other technical experts on items that were of mutual interest as well as on means of executing its mandate in a challenging operating environment. For instance, the Representation could have coordinated the purchase and distribution of sports kits for refugee children (\$73,475) with the relevant United Nations agency. Such decisions needed to be determined as part of the strategic planning and be informed by comparative advantage assessments and/or cost-benefit analyses.

28. Gaps in the Representation's strategic and operational planning were evident in the following:

- The Representation started 15 of 19 construction projects in November or December once additional funding was received in the period under review. Only one of these constructions was listed in the Representation's procurement plans. Three of these projects had not been used since their completion: (i) isolation unit (\$33,000) that was completed in December 2021; (ii) guesthouse in Meheba (\$30,000); and (iii) 12 houses built for unaccompanied minors (\$80,000) that started in April 2020 and were almost completed at the time of the review.
- The Representation was holding many non-food items (NFIs) in the Lusaka warehouse, \$102,000 (28 per cent) of which had expired. It also had 83 other item categories with numerous items that were not registered in MSRP (so called 'off-line stock') totaling \$49,000. The Representation did not have records reflecting the ageing of these items and was yet to develop a plan for their distribution.

29. The halving of the 2023 operational budgets called for a deliberate shift from short to longer-term planning to find more efficient and cost-effective ways of acquiring goods and services. This should be guided by robust inter-agency needs assessments, and with plans to systematically guide procurement activities as and when funds become available.

(2) The UNHCR Representation in Zambia should develop rolling procurement plans that support the prioritization of purchases as funding becomes available and that: (i) are informed by comprehensive needs assessments; (ii) directed by comparative advantage and cost-benefit analyses on which partnerships to go with to expand its supply capacity; and (iii) build on effective engagement with other United Nations Agencies in the operations management team to proactively identify opportunities for partnerships.

UNHCR accepted recommendation 2 and stated that the Representation: (i) in the process of developing an 18-month procurement plan that is informed by proper needs assessments; (ii) will ensure that the project partnership agreements include a “procurement component” based on cost-benefit analysis; and (iii) will continue to actively participate in the operations management team and related working group meetings to identify and leverage opportunities and efficiencies of delivering as one UN.

C. Capacity of the Supply Unit function to execute its mandate

Need to review the Supply Unit’s structure and capacity to execute its mandate

30. Effective supply chain management is dependent on adequate structures and sufficient human resource capacity in terms of numbers and skills. The Representation’s Supply Unit had five positions and was headed by one professional at the P3 level; one of the three national staff positions was vacant, and the remaining position was of an affiliate staff member. Three other United Nations agencies in Zambia had the same staff numbers although they conducted much larger procurements. The supply functions of two of these three agencies were headed by national officers and the third was headed by one international officer.

31. At the time of the review, the capacity of the supply unit was bolstered by one staff (P2) on a temporary assignment. The review questioned whether the additional technical assistance position in Solwezi was necessary in supporting the supply function going forward considering: (i) the halving of operating level budget in 2023; (i) the planned transition from NFIs to CBIs which significantly reduced related workload in the supply unit; and (iii) the staff member’s inability to conduct certain key tasks that could not be done by others in the Unit.

32. The Supply Management Service (SMS) under the Division of Emergency, Security and Supply had at the time of the audit assessed the adequacy of the Supply Unit’s structure to execute its mandate. However, OIOS review identified some additional factors that needed to be considered so the assessment is more accurate. After this review, the Bureau informed OIOS that it had assessed the supply structure for Zambia considering the reduced operation budget for 2023 and planned changes in the Representation’s operations, and amendments would be made to the structure going forward. Therefore, no recommendation was raised regarding the supply structure in Zambia.

33. The roles and responsibilities and required qualifications of supply officers as defined in Chapter 8 were high-level. Bearing this in mind, the review considered the qualifications of supply staff and noted that the international staff were suitably qualified for their roles. However, two of the three national staff did not have relevant qualifications and prior experience at the time they started working in the supply function. They had however acquired experience over time by working in the Unit. OIOS in its audit of

supply chain management activities in the Regional Bureau for East, Horn of Africa and the Great Lakes (2021-074) recommended that DESS review the roles and responsibilities of supply units at Bureau and country levels and their reporting lines, as well as update supply staff job descriptions. Therefore, no recommendation is raised in this regard.

34. Generally, the job descriptions were generic and thus did not reflect the tasks that supply staff were responsible for. For example, the Associate Supply Officer (P2) only became aware that the senior supply assistant (G5) they supervised was preparing fuel analyses during this review. Additionally, when the Representation withdrew certain staff access to MSRP, as a mitigated measure related responsibilities were allocated to another person, who did not update the system in time. There needed to be better allocation of tasks among staff to safeguard against potential gaps/ overlaps of roles and ensure accountability.

35. Most of the issues identified in the audit fell within the ambit of the Supply Officer's job description. This included amongst other things: (i) ensuring supply meets POC and organizational needs; (ii) building constructive relations with United Nations agencies to foster cooperation; (iii) establishing and maintaining effective and skilled workforce; (iv) identifying, assessing, and selecting vendors based on their capability to deliver; (v) monitoring asset/fleet pool; (vi) monitoring data and providing regular reports on supply chain activities; and (vii) monitoring compliance with UNHCR policies and standards. However, there was no evidence that the Supply Officers organized the Unit in a manner that ensured effective performance, i.e., through the allocation of tasks, setting targets for staff and assessing their performance, creation of an environment conducive for work, and supervising work to ensure compliance with rules.

36. Chapter 8 defined principles that reflected good performance, i.e., processes that are timely, simple, transparent and equitable and result in purchases at the lowest cost. However, the Representation did not have a framework against which the Supply Unit's performance would be monitored to improve its effectiveness and drive accountability. There was also no data to inform decision making and for the measurement of the Unit's performance, e.g., on the timeline of procurement.

37. The Representation's management was aware of the sub-optimal performance of supply staff but despite the measures taken to address this problem, such as retracting access to the MSRP, issues persisted. The Representation needed to strengthen its staff performance management.

(3) The UNHCR Representation in Zambia, in collaboration with the Regional Bureau for Southern Africa and Division of Emergency, Security and Supply (DESS), should: (i) address supply staff capacity issues so they can deliver related activities effectively; (ii) ensure clear division of responsibilities among supply staff to drive accountability; and (iii) implement a performance framework detailing suitable indicators and targets against which the Supply Unit's performance is reported and measured.

UNHCR accepted recommendation 3 and stated that the Representation, in collaboration with Regional Bureau and DESS, shall agree on an optimal supply unit structure with clear roles and responsibilities for each position. Where necessary, staff members will be encouraged to undertake relevant courses to ensure that they have the necessary skillset to perform their role and performance will be regularly monitored. The Zambia operation, in collaboration with the Regional Bureau will review Supply Chain related indicators on a monthly basis.

D. The Representation's management of procurement (First line)

Need to strengthen execution, coordination and supervision of the supply function

38. Supply related activities spanned different units: protection, programme, supply and finance units. The responsibility of coordinating the work of the different units and supervising the supply function fell with the Deputy Representative, but this position was vacant from February 2022, thereby weakening the control environment. Prior to that period, the review did not see evidence of the Deputy Representative's active involvement and/or coordination of the different units. The review also identified a potential overlap and gaps between roles allocated to different units, which called for stronger coordination, so programmes are not impacted. For instance, the review identified gaps in (i) coordinating the supervision of construction projects, ensuring completed structures are used; (ii) monitoring the distribution of items in the warehouses; and (iii) the utilization of sports kits worth \$73,475 that were held for over 24 months. These examples show weaknesses in the protection and programme units' execution of their roles.

39. The functions of the different Units were also meant to provide checks and balances across the supply process, and gaps in executing these tasks rendered controls ineffective. For instance, the Finance Unit had a 'gate-keeper' role to ensure that payments were done after satisfactory execution of and in accord with the signed contracts. However, the review noted that payments for licenses costing \$6,341 were made without supporting documents. Also, the Finance Unit made an overpayment of \$2,828 on the contract for cleaning materials (\$14,144). In the case of constructions, it should have ensured that: (i) retention fees were withheld until satisfactory completion of projects; (ii) performance bonds were in place as guarantees for performance; and (iii) liquidated damages were instituted for delays in completion of works that were attributed to the contractors.

40. To support the coordination process, the Representation needed but did not collect and report supply related data that would be used for decision making. Thus, there was limited visibility of the whole supply process - from identifying beneficiary needs to distribution of items, as was noted with the sports equipment that remained undistributed for over two years. Additionally, the review identified issues which could have been detected for rectification in a timely manner:

- Zambia's monthly Country Financial Report indicated that there were purchase orders pending for over six months amounting to \$809,000 at the time of audit. The Representation did not process these purchase orders until OIOS made related inquiries; eventually, most were cancelled and/or processed for payment.
- The Supply Unit did not have an updated list of the large volumes of 'off-line' stock in a warehouse, which lay there for months/years with no plans in place for their distribution.
- Although the Representation closed the Solwezi warehouse at the end of June 2022, the MSRP in October 2022 still listed items on stock, e.g., 2,350 sanitary kits. No items were in the warehouse, but issuances had not been recorded against these items. While the Representation attributed this to a glitch in MSRP, it had not been identified for resolution prior to the audit.

Need to strengthen risk management

41. The country context underpinned and impacted the environment within which the Representation purchased and managed its assets. Zambia ranks 117 out of 180 countries in the 2021 Corruption Perceptions Index reported by Transparency International. This called for reinforced compliance with UNHCR rules to safeguard resources.

42. As the first line, the Representation is responsible for owning and managing risks in country. The procurement related risk in its register related to compromised processes for purchasing goods and services. This risk had materialized with attendant indicators: ad hoc and short procurement cycles, unmet refugee needs, delays in receipt of goods and services, occurrence of fraud, and loss of UNHCR resources. Despite all these obvious weaknesses and their impact on programme activities, procurement risk was assessed as medium risk.

43. The Representation had documented in its risk register six actions to mitigate procurement risk, but only two of the six actions were reported as implemented. These two were, in OIOS view, still work in progress, i.e., (i) an assessment of the capacity of Supply Unit; and (ii) establishment of frame agreements for frequently purchased goods and services. The four unimplemented actions were: (i) closely monitoring adherence to procurement policies and procedures; (ii) training of staff with procurement responsibilities; (iii) having a comprehensive and up to date procurement plan in place; and (iv) conducting a cost-benefit analysis to inform its delegation of procurement to partners.

44. The Representation initiated additional actions to address the anomalies in procurement activities. However, the shift towards addressing anomalies detracted from implementing systems to ensure general compliance. For instance, the Representation noted that it reported red flags to the Inspector General's Office for investigation, instituted an oversight committee and had one staff demoted through disciplinary measures. These actions, while necessitated by the situation, were reactive and without enough consideration of root causes of problems. In some cases, the actions taken inadvertently created other risks for the country operation. For instance, the Representation closed the Solwezi warehouse because of pilferage of stock but the remaining items in Lusaka warehouse remained undistributed. It also removed national staff access to MSRP as a remedial control, but this resulted in delays in updating and assuring the quality of data in MSRP.

45. The Representation planned to change the modality of service delivery from NFIs to CBI. However, unless effective controls to safeguard CBI resources were established, the same risks of pilferage would exist. Further, the Representation needed to consider that Zambia was prone to emergencies, which necessitated arrangements be in place for quick mobilization of NFIs if needed. The Representation also planned to stop construction works in the future, but there were no plans in place for the Government and/or other agencies to take over related work as is envisaged in the Comprehensive Refugee Response Framework.

46. Concerning construction, unlike the three other United Nations agencies queried by the audit, the Representation:

- Did not prequalify or vet contractors; this contributed to the delays in constructions and sub-standard quality of work.
- Awarded contracts to entities that were not registered with the Zambia National Council for Construction, which grades contractors in Zambia.
- Did not consistently involve a qualified engineer in construction projects. An engineer was only available from 1 April 2021 and 30 June 2022 in the Field Office in Solwezi. Thus, bills of quantity were not available in many cases, to serve as controls over the procurement and construction processes.
- Did not effectively monitor construction work. Several projects had notable delays and quality issues at the time of the review, e.g., the construction of water and sanitation facilities at the transit center and primary schools in Meheba (\$114,265), the 12 houses for unaccompanied minors (\$80,000) and the fence at the transit center (\$32,000). While the Representation noted that it had instituted tools for supervision of construction, these were not evident as noted by the audit.

47. Regarding fuel, which carried a high risk of loss through theft and other irregularities, the Representation did not have adequate controls in place. For instance, the Representation did not have contracts with vendors that supplied fuel costing \$815,000 in the period under audit. OIOS found that the volume of fuel delivered in Meheba settlement was not independently verified and the partner did not undertake fuel dips periodically to ensure that stock could be accounted for. The established fuel quotas

for partner vehicles were not respected, with some taking more than 1.5 times their allocations; this defeated the effectiveness of the control. Fuel for generators in UNHCR offices was kept in jerry cans and 200-liter drums, which was not secured and increased the risk of theft. Although fuel consumption rates were calculated, they were not analyzed and followed up.

48. OIOS believes these weaknesses existed because risk management was not yet fully embedded in the Representation management's decision-making processes.

Oversight by the Local Committee on Contracts

49. The Representation's local committee on contracts (LCC) was headed by the Representative and comprised of at least two members (i.e., Senior Programme Officer, Administration Officer, Project Control Officer, Protection and Resettlement Officers), all of whom had completed the mandatory training. The LCC primarily reviewed and approved individual purchases within established thresholds. The review noted that the committee had successfully reduced the number of ex-post facto approvals over the years.

50. The effectiveness of the LCC was also affected by its coverage. The LCC only reviewed those purchases that were above the \$40,000 threshold. While the Representation noted that all procurements were risky in the Zambia context, the Representative had the authority to, but did not, lower the LCC threshold. It thus did not always identify the risks for purchases below the threshold. The review also noted that despite the training provided, LCC members were sometimes unable to identify technical matters that compromised procurement processes. For instance, the LCC did not question the appropriateness of solicitation method used in procurements. The LCC also did not monitor whether procurements were included in the procurement plan or whether effective vetting of vendors had been done.

51. The LCC, in exercising its due diligence, may have unintentionally compromised the very procurement process it was trying to secure. For instance, it asked the Supply Unit to confirm that vendors were bona-fide. This was done because in most cases, RFQ was used, and so technical aspects of bids were not considered. However, such verifications were done by the same supply staff that were responsible for the whole process and without clear criteria on what would be used in these verifications. It thus often resulted in the disqualification of the best bid.

- (4) The UNHCR Representation in Zambia should, in collaboration with the Regional Bureau for Southern African, strengthen its first line of defense role by: (i) recruiting a Deputy Representative experienced in operations; (ii) instituting supply coordination mechanisms across relevant units to review available data for decision making; (iii) reinforcing the Local Committee on Contracts to provide effective oversight over the whole procurement process; and (iv) updating its risk register, with adequate actions to mitigate procurement related risks systematically.**

UNHCR accepted recommendation 4 and stated that the Representation: (i) in collaboration with Regional Bureau was in the process of recruiting a Deputy Representative with experience in managing operations. (ii) will once again look at supply related processes, documentation and segregation of authority within the program, supply, project control, admin/finance and Heads of Field Office to enhance internal coordination. (iii) The operation will review the currently local procurement SOPs to assess whether it is necessary to lower the threshold of the LCC to a reduced level as per current context. In addition, the operation will regularly review the procurement related risks to ensure the appropriate treatments are in place. (iii) has committed to having all staff members with roles in the LCC re-take the related training between 1 January and 31 March 2023.

E. Oversight and support arrangements (Second line)

Need to strengthen oversight and support provided to the Representation in the interim period

52. The Regional Bureau is accountable for ensuring that UNHCR financial, material and human resources in the region are effectively and strategically managed to ensure duty of care, integrity and to maximize the impact of UNHCR's operations. It also should oversee compliance with UNHCR's rules and regulations in the region, and the Bureau should provide support, enhance capacity and foster two-way communication channels with country operations. Divisions on the other hand, were responsible for developing policies and procedures such as the guidance on construction works.

53. In the 2018 audit of Zambia, OIOS had recommended that, in collaboration with the Bureau, a review of procurement processes is conducted to strengthen control over procurement and construction works. This recommendation was closed in 2019 based on documentary evidence. However, corrective measures were not sustained given that similar issues and weaknesses in control continued. The Bureau explained that during the COVID-19 pandemic it had not been able to organize oversight and support missions to Zambia. The Bureau also had capacity issues and thus needed a plan informed by risk to guide its oversight and support work across countries in its region, particularly for the Zambia operation that has shown pervasive gaps in procurement management.

- (5) The UNHCR Regional Bureau for Southern Africa should develop and implement a plan to oversee and support the Representation as the latter builds its supply capacity and controls.**

UNHCR accepted recommendation 5 and stated that Regional Bureau will (i) ensure a supply management internal compliance checklist is completed by UNHCR Zambia which will aid future support plans, (ii) develop and share with Zambia a matrix to capture direct formal and informal solicitations and use it to conduct monthly desk review in 2023, (iii) conduct monthly Supply related Country Financial Report desk review with Zambia Supply Unit in 2023.

- (6) The UNHCR Division of Emergency, Security and Supply should develop guidance over the planning, management and supervision of construction work within UNHCR.**

UNHCR accepted recommendation 6 and stated that DESS / SMS is aware of the limited coverage of construction works in its Procurement Policy and Administrative Instructions. For this reason, DESS/SMS has included instructions for the Procurement for Construction work in its revised Chapter 8 Supply Guidance document, which will be released in Q2 2023.

IV. ACKNOWLEDGEMENT

54. 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
Chief, UNHCR Audit Service
Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ³ / Important ⁴	C/ O ⁵	Actions needed to close recommendation	Implementation date ⁶
1	The UNHCR Representation in Zambia should strengthen individual staff accountability for compliance with UNHCR rules by instituting comprehensive reviews over direct procurement activities by Programme, Finance and Project Control, and holding staff to account for identified cases of non-compliance.	Important	O	Receipt of documentary evidence of: (i) implemented comprehensive monitoring plan targeting direct procurement by Programme, Finance and Project control; (ii) clear division of responsibilities to ensure accountability and clarity of roles; (iii) staff performance appraisals including evaluation of implementing work in compliance with rules.	30 June 2023
2	The UNHCR Representation in Zambia should develop rolling procurement plans that support the prioritization of purchases as funding becomes available and that: (i) are informed by comprehensive needs assessments; (ii) directed by comparative advantage and cost-benefit analyses on which partnerships to go with to expand its supply capacity; and (iii) build on effective engagement with other United Nations Agencies in the operations management team to proactively identify opportunities for partnerships.	Important	O	Receipt of documentary evidence of implemented comprehensive rolling (longer term) procurement plan that supports the prioritization of purchases as funding becomes available including: (i) evidence of link with comprehensive needs assessment; (ii) identification of procurements where frame agreements will be required and pre-qualification necessary especially for construction; (iii) comparative advantage and cost benefit analysis to support how Representation buys, for example, through partnerships, UN agencies and/or other methods; (iv) evidence of active participation in functional groups of OMT including evidence of proactive identification of opportunities for partnerships in OMT relevant for procurement (whether LTAs or other).	31 December 2023
3	The UNHCR Representation in Zambia in collaboration with the Regional Bureau for Southern	Important	O	Receipt of documentary evidence of: (i) formalized new supply structure; (ii) allocation of	31 December 2023

³ 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.

⁴ 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.

⁵ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁶ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ³ / Important ⁴	C/ O ⁵	Actions needed to close recommendation	Implementation date ⁶
	Africa and Division of Emergency, Security and Supply should: (i) address supply staff capacity issues so they can deliver related activities effectively; (ii) ensure clear division of responsibilities among supply staff to drive accountability; and (iii) implement a performance framework detailing suitable indicators and targets against which the Supply Unit's performance is reported and measured.			roles and responsibilities for each post and qualifications required to deliver; (iii) selection of most suitable staff for each of the operational posts; (iv) implementation of suitable indicators and targets for measuring and reporting supply unit and staff's performance.	
4	The UNHCR Representation in Zambia should, in collaboration with the Regional Bureau for Southern African, strengthen its first line of defense role by: (i) recruiting a Deputy Representative experienced in operations; (ii) instituting supply coordination mechanisms across relevant units to review available data for decision making; (iii) reinforcing the Local Committee on Contracts to provide effective oversight over the whole procurement process; and (iv) updating its risk register, with adequate actions to mitigate procurement related risks systematically.	Important	O	Receipt of documentary evidence of: (i) recruitment of a Deputy Representative with experience in managing operations; (ii) clear (written) definition of respective roles of each unit for key supply processes (programme, protection, supply, admin/finance and Heads of Field Offices); (iii) implemented SOPs where applicable to guide implementation of supply processes; (iv) implemented lower threshold for review by LCC; (v) LCC minutes evidencing review of whole procurement process including vendor management, procurement planning and adequacy solicitation method for cases reviewed or checklist of key controls implemented reviewed by LCC; (vi) updated risk register with evidence of adequate actions to mitigate procurement risks; (vii) updated and cleaned up vendor database continuously updated by vetting vendors including thresholds for vetting through UNGM.	31 December 2023
5	The UNHCR Regional Bureau for Southern Africa should develop and implement a plan to oversee and support the Representation as the latter builds its supply capacity and controls.	Important	O	Receipt of documentary evidence of implemented plan to oversee and support of the Zambia operation's supply and procurement processes as the latter builds its supply capacity and controls.	31 December 2023

STATUS OF AUDIT RECOMMENDATIONS

Review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ³ / Important ⁴	C/ O ⁵	Actions needed to close recommendation	Implementation date ⁶
6	The UNHCR Division of Emergency, Security and Supply should develop guidance over the planning, management and supervision of construction work within UNHCR.	Important	O	Receipt of documentary evidence of developed guidance over planning, management and supervision of construction work within UNHCR.	31 December 2023

APPENDIX I

Management Response

Management Response

Review of procurement in Zambia for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
1	The UNHCR Representation in Zambia should strengthen individual staff accountability for compliance with UNHCR rules by instituting comprehensive reviews over direct procurement activities by Programme, Finance and Project Control, and holding staff to account for identified cases of non-compliance.	Important	Yes	Deputy Representative	30 June 2023	<p>The operation has already started working on the comprehensive procurement plan which will cover the period 1st Jan 2023 – 30 June 2024, along with Direct Implementation Plan for 2023 which will be followed by a comprehensive monitoring plan to be reviewed by the MFT on a quarterly basis.</p> <p>The operation will once again look at the segregation of authority within the program, supply, project control and finance to ensure the accountability and clarity of roles.</p> <p>The operation will ensure that the performance objectives of supply staff are related to the implementation and will be in accordance with the strategic consolidated procurement plan and in compliance with the applicable rules.</p> <p>*Staff performance appraisals will include evaluation of implementing their work.</p>
2	The UNHCR Representation in Zambia should develop rolling procurement plans	Important	Yes	Representative	31 Dec 2023	(i) The above-mentioned procurement plan including

⁷ 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.

⁸ 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	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
	that support the prioritization of purchases as funding becomes available and that: (i) are informed by comprehensive needs assessments; (ii) directed by comparative advantage and cost-benefit analyses on which partnerships to go with to expand its supply capacity; and (iii) build on effective engagement with other United Nations Agencies in the operations management team to proactively identify opportunities for partnerships.					<p>prioritization of needs covering the period of 18 months starting from Jan 2023 will be developed and finalized before end of 2022; The operation developed a strategic plan based on the situation analyses for period 2022-2024; the needs identified in the strategic plan will be prioritized to feed the long-term procurement plan.</p> <p>(ii) Zambia plans to work with partners and ensure the PPAs will include a “procurement component” based on cost-benefit analysis (or technical advantage)</p> <p>(iii) Since the Covid 19 restrictions are eased; the operation will continue to actively participate in the OMT meetings including the working groups namely supply, ICT, finance and HR areas through which each single opportunity to further enhance the efficiencies of deliver as one UN. The operation is also working on enhancing its supplier database including pre-qualification of the construction suppliers despite the fact that the operation stopped construction through direct implementation.</p>
3	The UNHCR Representation in Zambia in collaboration with the Regional Bureau for Southern Africa and Division of Emergency, Security and Supply should: (i) address supply staff capacity issues so they can deliver related activities effectively; (ii)	Important	Yes	Deputy Representative	31 Dec 2023	(i) and (ii) The Zambia operation, in collaboration with Regional Bureau and DESS SMS shall agree on the most practical supply unit structure with clear roles and responsibilities for each position. Where necessary,

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
	ensure clear division of responsibilities among supply staff to drive accountability; and (iii) implement a performance framework detailing suitable indicators and targets against which the Supply Unit's performance is reported and measured.					<p>SMS will be encouraged to undertake relevant courses offered through the UNHCR Learn & Connect platform in view of their specific roles. Capacity building will be provided for all staff to ensure that they have the necessary skillset to perform their role and performance will be regularly monitored.</p> <p>(iii)The Zambia operation, in collaboration with the Regional Bureau will be reviewing Supply Chain related indicators on a monthly basis through actions taken in view of the comprehensive procurement plan and PowerBI dashboards for inventory, Requestions, POs, receipts and open items for deposits with suppliers, inventory clearing account and retentions with suppliers.</p>
4	The UNHCR Representation in Zambia should, in collaboration with the Regional Bureau for Southern African, strengthen its first line of defense role by: (i) recruiting a Deputy Representative experienced in operations; (ii) instituting supply coordination mechanisms across relevant units to review available data for decision making; (iii) reinforcing the Local Committee on Contracts to provide effective oversight over the whole procurement process; and (iv) updating its risk register, with adequate actions to mitigate procurement related risks systematically.	Important	Yes	Deputy Representative	31 Dec 2023	<p>(i)The Zambia operation in collaboration with Regional Bureau is in process of recruitment of a Deputy Representative with experience in managing operations.</p> <p>(ii) As mentioned under recommendation number one; the operation will once again look at the Supply related processes, documentation and segregation of authority within the program, supply, project control, admin/finance and HoFOs to ensure there is evidence based construction monitoring</p>

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
						<p>checklist and enhance internal coordination.</p> <p>(iii)The operation will review the currently local procurement SOPs to consider whether it is necessary to lower the threshold of the LCC to a reduced level as per current context and to capture other procurement control related aspects such as vendor management, procurement planning, solicitation method and process for cases to be reviewed thoroughly by LCC as the first line of defense. In addition, the operation will regularly review the procurement related Risk to ensure the appropriate treatments are in place.</p> <p>In addition in response to sub-item (iii) a commitment will be made to ensure all SMs with roles in the LCC (chair, member, ex-officio, secretary; including alternates) re-take the LCC training once again between 1 Jan and 31 March 2023.</p>
5	The UNHCR Regional Bureau for Southern Africa should develop and implement a plan to oversee and support the Representation as the latter builds its supply capacity and controls.	Important	Yes	Regional Bureau Senior Supply Officer	31 Dec 2023	Regional Bureau will (i) ensure a supply management internal compliance checklist is completed by UNHCR Zambia which will aid future support plans, (ii) Develop and share with Zambia a matrix to capture direct formal and informal solicitations and use it to conduct monthly desk review in 2023, (iii) conduct monthly Supply related CFR

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
						desk review with Zambia Supply Unit in 2023.
6	The UNHCR Division of Emergency, Security and Supply should develop guidance over the planning, management and supervision of construction work within UNHCR.	Important	Yes	Head of SMS	31 Dec 2023	DESS/SMS is aware of the limited coverage of construction works in its Procurement Policy and Administrative Instructions. For this reason, DESS/SMS has included instructions for the Procurement for Construction work in its revised Chapter 8 Supply Guidance document, in the section on Procurement with Special provisions. The revised Chapter 8 is expected to be released in Q2 2023. As applicable appropriate regulatory coverage will also be included in the Administrative Instructions – also expected to be revised and released in Q3 2023, along with the deployment of the new ERP system. It should be noted, however, that the revision of guidance documents is one element of many, which will certainly contribute but not fully address the specific requirements for procuring and managing construction projects. Additional investments in skilled workforce, expertise in project-procurement and the availability of reliable external contractors will be necessary additional elements to address this complex and growing area of work for UNHCR supply.