Internal Audit of
Procurement on Behalf of Other
Organizations and Governments by
Supply Division

Office of Internal Audit
and Investigations (OIAI)
Report 2013/11
Summary

The Office of Internal Audit and Investigations has conducted an audit of procurement on behalf of other organizations and governments by UNICEF’s Supply Division. The audit team visited Supply Division (SD) in Denmark (Copenhagen) from 26 November to 14 December 2012. The audit covered the period from January to October 2012.

UNICEF’s Supply Division, based in Copenhagen, procures supplies, equipment and services not only for UNICEF, but also for governments, other UN organizations and NGOs. The audit reviewed whether this was done on a competitive basis in a timely manner with due care for economy; and whether transactions were properly approved and processed, and conformed with UNICEF procurement policies and procedures. It also examined monitoring of, and reporting on, performance; and the functioning of the Procurement Services Review Committee (PROSERVE), an inter-divisional body that advises the Director of Supply Division in respect to Procurement Services.

The value of Procurement Services jumped by 32 percent from US$ 874 million in 2010 to US$ 1.2 billion in 2011 because of the increased use of these services for the procurement of supplies, mainly essential health supplies, by partners such as national governments and NGOs. One key partner accounted for 59 percent of the total value of Procurement Services in 2011. Supplies were shipped to partners in 108 countries in 2011. The supplies included a broad range of health-related items; however, the vast majority were vaccines and pharmaceuticals.

Supply Division recovers the direct and indirect costs of the procurement services activities by charging the actual cost of the supplies and services, plus a handling fee. The Division follows the same procedures as in the procurement of programme supplies and services for UNICEF-assisted programmes and operations. Its activities on behalf of partners are sanctioned by UNICEF Financial Regulations and Rules, which state that it may arrange with Governments, NGOs and other UN bodies to purchase supplies, equipment and services on their behalf “for purposes related to UNICEF activities and consistent with the aims and policies of UNICEF”.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, Supply Division has decided to take a number of measures. The audit did not highlight any issues that required immediate management attention and there are therefore no high-priority agreed recommendations. However, several medium-priority actions were identified.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to the implementation of the agreed actions, the control processes governing Procurement Services in Supply Division were generally established and functioning during the period under audit. The measures to address the observations made are presented with each observation in the body of this report. Supply Division and OIAI will work together to monitor implementation of these measures.

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## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td>2</td>
</tr>
<tr>
<td>Objectives and scope</td>
<td>4</td>
</tr>
<tr>
<td>Audit observations</td>
<td>4</td>
</tr>
<tr>
<td>Satisfactory key controls</td>
<td>4</td>
</tr>
<tr>
<td>Responsibility and accountability</td>
<td>5</td>
</tr>
<tr>
<td>Processes and procedures</td>
<td>6</td>
</tr>
<tr>
<td>Project management</td>
<td>7</td>
</tr>
<tr>
<td>Use of technologies</td>
<td>8</td>
</tr>
<tr>
<td>Performance monitoring</td>
<td>9</td>
</tr>
<tr>
<td>Financial monitoring and reporting in SAP-based ERP system</td>
<td>10</td>
</tr>
<tr>
<td>Conclusion</td>
<td>10</td>
</tr>
<tr>
<td>Annex A: Methodology, definition of priorities and conclusions</td>
<td>11</td>
</tr>
</tbody>
</table>
Objectives and scope

The objective of an audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over the area selected for audit. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The objectives of this particular audit were to verify whether:

- supplies, equipment and services of agreed quality were acquired on a competitive basis, in a timely manner and with due care for economy;
- the acquisition and delivery of supplies and equipment was properly approved and processed, and conformed with UNICEF procurement policies and procedures, and contractual arrangements;
- financial and operational information for monitoring and reporting was accurate, reliable, and timely; and,
- the Procurement Services Review Committee (PROSERVE) was functioning effectively.

The audit did not review the adequacy of the policy governing Procurement Services, including the basis of the Procurement Services handling fee. These aspects had been recently reviewed by UNICEF’s external auditors, and management was taking steps to implement corrective action following that review. These steps included updating the policy on Procurement Services, and covered its elements related to the strategy and the development of agreements with partners.

Audit observations

Satisfactory key controls
The Advisory Group of Supply Division—composed of the Director, Deputy-Director, Centre Chiefs and other key staff members—met weekly. Procurement Services performance was monitored quarterly during Advisory Group meetings and supervisors’ meetings.

There were processes and controls for the management of Procurement Services projects.¹ For instance, Procurement Services projects were entered into UNICEF’s management system, VISION, only after confirmation that the funds had been deposited in the designated bank account and were therefore available for procuring supplies. Further, invoices were paid only after the goods and services had been received as specified, and the invoice had been approved for payment by two designated paying officers. There was an effective system to track and follow up on customer feedback.

¹ In this report, the term “project” may refer to a Procurement Services (PS) transaction, PS Key Account transaction, PS project or project for a PS Key Account.
Supply Division had systems and processes to ensure supplies were procured through competitive bidding. The majority of selected suppliers had a long-term agreement with UNICEF. However, other pre-qualified suppliers with the required capacity were also invited to bid for the purchase of supplies and equipment. Further, at least two staff members were responsible for awarding the purchase orders to suppliers, and in cases of high-volume projects a higher level of authority was required as well.

Supply Division informed the audit team that it had completed its 2012 risk and control self-assessment and had submitted the results to the Global Management Team in compliance with UNICEF’s Enterprise Risk Management Policy.

Responsibility and accountability
The audit reviewed the assignment of responsibilities and accountabilities of staff involved in Procurement Services, and of the Procurement Services Review Committee (PROSERVE).

**Procurement Services:** The total value of Procurement Services jumped by 32 percent from US$ 874 million in 2010 to US$ 1.2 billion in 2011. However, the assignment of responsibilities and accountabilities had not kept pace with the fast growth of Procurement Services operations. Though the Director of Supply Division is ultimately accountable for Procurement Services operations, the responsibilities and accountabilities of staff needed to be clarified and enforced. This was particularly the case for the overall monitoring of Procurement Services projects from initiation to finalization.

The responsibilities and accountabilities for managing the operational, logistical and financial aspects of the projects from start to finish were split between several centres. None had clear accountability for the schedule and key risks of the whole cycle of any specific Procurement Services project. This had reduced the Division’s capacity to properly detect any major performance issues related to Procurement Services projects. (The audit also regarded assignment of responsibility for management of projects as an issue – this is discussed under Project management, below).

**PROSERVE:** The terms of reference of PROSERVE—an inter-divisional advisory body to the Director of Supply Division in respect to Procurement Services—included oversight of Procurement Services planning, strategy and operations. However, it did not clearly include a requirement to review, and advise on, the management of the key risks to Procurement Services projects.

**Agreed action 1 (medium priority):** Supply Division agrees to review, during the preparation of the new Office Management Plan, its processes, systems and the accountabilities and responsibilities of staff, in order to ensure effective management of risks, coordination, quality and timeliness of Procurement Services projects. It will review and update the organizational structure and job descriptions as appropriate. The division also agrees to update the terms of reference of the Procurement Services Review Committee (PROSERVE) by including a requirement to review, and advise on, the management of key risks related to the procurement of supplies, equipment and services on behalf of other organizations and of Governments.
The division expects to complete these actions by April 2014. The responsible officer is the Director of Supply Division.

Processes and procedures
The audit examined the systems and practices in place to review and update Procurement Services processes and procedures in Supply Division.

**Supply Division’s processes and procedures:** The division had developed flowcharts for each process during the implementation of the IPSAS\(^2\) and VISION roll-out projects in 2011 and 2012. The processes were described in a narrative format in the division’s procedures. The division also defined the controls in each procedure. However, the key risks associated with each control had not been identified and documented for each process in the division’s procedures. Further, 17 of the division’s 70 procedures had not been reviewed, and updated as necessary, during the past two years as required. Some of them had not been formally reviewed since 2006.

The division also had Internal Quick Reference Guides with detailed work instructions for Procurement Services transactions. However, the documents were stored on file servers without proper version control. Also, documents that were under review were not identified and highlighted as such, thereby increasing the risk of staff using obsolete or invalid procedures.

The division informed the audit team that the above shortcomings were mainly due to staff turnover and to workload.

**Statements of account to Procurement Services partners:** A Statement of Account (SoA) for each Procurement Services project is prepared after all deliveries are completed and the expenditures for supplies, freight, handling fees or other expenses are recorded. Though the VISION system is able to generate multiple reports, it does not automatically give a notification when an SoA needs to be created. Instead, multiple reports need to be monitored and reviewed manually to establish when to issue a SoA. For multi-year projects that began prior to January 2012, a manual reconciliation between reports in the legacy system (FLS) and the ERP system was required since the logistics and financial data for active and open projects had not been migrated. This manual monitoring led to several delays in the issue of SoAs, as reported to PROSERVE (see also observation on Performance Monitoring, below).

**Agreed action 2 (medium priority):** Supply Division agrees to review and update the workflows of Procurement Services; and ensure the division’s procedures are updated within the established time period. It also agrees to consider developing risk-control matrices for the main Procurement Services systems and processes so as to identify opportunities to streamline internal procedures and increase the use of automated preventive controls for improving efficiency and effectiveness. It will also review and improve the current processes for reviewing and issuing the statement of accounts to partners to reduce the manual workload and risk of delays.

\(^2\) IPSAS = International Public Sector Accounting Standards, which UNICEF, along with a number of similar organizations, has now adopted.
The division expects to complete these actions by April 2014. The responsible officer is the Director of Supply Division.

Project management
The audit reviewed the systems and practices in place to manage Procurement Services projects and other internal initiatives in Supply Division.

Management of Procurement Services projects: Large and complex procurement services transactions were not clearly defined and managed as projects, and did not have an assigned management structure. The division’s procedure required a focal point (responsible person) to be appointed for any Procurement Services project and for any project managed on behalf of a key account. For key procurement services accounts, however, the responsibilities of the focal point regarding monitoring and risk management were not clearly defined. Further, the division’s procedure did not require the identification of a project owner, and management of Procurement Services projects had not been included in the job descriptions of any of the deputy directors.

A project owner would need to be assigned to any Procurement Service project or any project that is managed on behalf of a key account. Such a project owner would be responsible for maintenance of overall quality in accordance with the Cost Estimates and memoranda of understanding agreed with the partner, and would monitor project implementation against established milestones. The project owner would also need to be the main contact person for interacting with Procurement Services partners.

There was also no adequate mechanism for monitoring projects; although relevant information about Procurement Services projects from sales order to the delivery to the port of entry was retrieved from the ERP system and stored in an Excel file, the information was not used in a structured manner to monitor project implementation.

At the time of the audit, the division’s procedure was being reviewed in light of the need to establish a Procurement Services Project Team, which could include staff from various centres in Supply Division, including the Procurement Services Centre and Quality Assurance Centre.

Management of internal improvement initiatives: At the time of the audit, Supply Division was implementing several internal improvement initiatives. They were not managed using a well-defined project methodology, and needed to be consistently prioritized, coordinated and evaluated in a structured way. Further, the objectives, responsibilities (and ownership) and milestones of each initiative needed to be formally established and communicated. Supply Division had recognized, in its 2012 risk and control self-assessment, that the division’s capacity to monitor progress and identify areas of improvement for internal initiatives could be improved.

Supply Division has established various procedures to manage various categories of projects such as projects related to ICT, innovation or general improvement. However, the division recognized that, for any category of project, a standard process was needed for monitoring and reporting progress against milestones.
**Agreed action 3 (medium priority):** Supply Division agrees to review and update its procedures in order to refine definitions of Procurement Services projects and Key Accounts. As part of this process, it will further define accountability of staff responsible for managing them, and develop and use comprehensive automated monitoring and reporting tools with preventive controls. More specifically, Supply Division agrees to assign a project owner to any large, complex Procurement Services project or key account, and to define the project owner’s responsibilities, particularly with respect to performance monitoring and risk management. The project owner will be the main contact person for interacting with Procurement Services partners. S/he will be responsible for the overall quality of Procurement Services in accordance with the Cost Estimates and memoranda of understanding agreed with the partner; and will monitor project implementation against established milestones. Where Procurement Services transactions are large and complex, Supply Division agrees to clearly define them as such, and establish an appropriate management structure.

With respect to internal improvement initiatives, Supply Division agrees to prioritize, coordinate and monitor them using a well-structured project methodology. It will also review its procedures to include a standard process to monitor and report progress against milestones.

The division expects to complete these actions by April 2014. The responsible officer is the Director of Supply Division.

**Use of technologies**

The audit reviewed the systems and practices in place to identify opportunities to further automate internal processes of Procurement Services operations.

Procurement services transactions were generally processed manually. The Lotus Notes Logging system used for the initial review steps of a Cost Estimate request did not interface with the ERP system. As a result, the Cost Estimate was not released automatically by the ERP system.

The electronic document management system used to store, review and approve key documents throughout the transaction lifecycle was not fully interconnected. Some documentation was kept partly digitally and partly in physical binders. The ERP system was used for storing some key supporting documents from Sales Order creation until the transaction had been finalized, but this use was inconsistent.

All invoices were scanned when received, but were not sent into a workflow system for review and approval. The actual review and certification of invoices was a manual workflow, which did not fully exploit existing opportunities for system-workflow and electronic signatures. Furthermore, Supply Division did not use current technologies to automate a three-way match control between purchase orders, good receipt (proof of delivery) notes and incoming invoices. The audit team was informed that a study reviewing the available technologies for automating invoice scanning was being done at the time of the audit.

The manual handling of documents and approval process increased the workload and the risk of inefficient use of resources and misplacement of documents.
Agreed action 4 (medium priority): Supply Division agrees to, in coordination with Information Technology Solutions and Services and the Division of Financial and Administrative Management, fast-track a study of the use of technologies—such as electronic document management and e-signatures with integrated workflow systems—to complement the VISION ERP (Enterprise Resource Planning) system so as to improve the efficient handling of documents, record-keeping and processing of transactions and approval. This includes continuing to work on the Customer Relationship Management (CRM) system implementation, which would allow for automatic receipt and release of cost estimates in VISION, and to merge the Procurement Services cost estimate request logging system into VISION ERP. CRM will also allow tracking of Procurement Services orders by Procurement Services partners. Supply Division Procurement Services Centre also agrees to review the possibility of preparing the memoranda of understanding and agreements within VISION to make use of the monitoring and reporting abilities provided by VISION.

The division expects to complete these actions by April 2014. The responsible officer is the Director of Supply Division.

Performance monitoring

The audit reviewed the processes and controls in place to monitor the performance of Procurement Services. Supply Division had established key performance indicators (KPIs), and regularly monitored and reported actual results against established targets to PROSERVE.

Supply Division monitored on-time delivery of supplies. Only 58 percent of supplies were delivered on time in the third quarter of 2012. The target in the division’s management plan was 100 percent. This KPI measured the procurement of supplies on behalf not only of other organizations and governments (Procurement Services) but also UNICEF country programmes. There was no specific indicator to measure on-time delivery of Procurement Services. As a result, Supply Division could not determine the overall performance of Procurement Services projects in terms of timeliness of supply delivery.

Supply Division also monitored the timeliness of SoAs to partners after the completion of a Procurement Services project. In the second quarter of 2012, 65 percent of the statements were issued within 30 days after completion, which was below the target of 80 percent (but higher than 56 percent in the second quarter of 2011).

Several factors contributed to delays, including implementation of the new management system (VISION) and a move to new premises. Supply Division was aware of the below-expected performance against the two indicators and had taken steps to identify the root causes and opportunities for improvements.

The audit notes that action is already underway to address the above observations. Supply Division intends to continue monitoring the KPIs, identifying root causes of below-expected performance and implementing preventive and/or corrective actions. However, it may also be useful to establish that the KPIs are in fact appropriate.

Agreed action 5 (medium priority): Supply Division agrees to review the adequacy of its key
performance indicators and related targets for Procurement Services during the development of the 2014-2017 office management plan, and make adjustments as necessary.

The division expects to complete these actions by April 2014. The responsible officer is the Director of Supply Division.

Financial monitoring and reporting in VISION
The audit reviewed whether the financial monitoring and reporting of Procurement Services projects was properly integrated into VISION. It found that this was the case, with the exception of one partner. For this specific partner, the cash receipts were managed in the key partner’s escrow accounts for which UNICEF had sole drawing rights. The funds could be transferred to UNICEF’s bank account within 10 working days prior to payments of supplier invoices. The total balance of the key partner’s escrow accounts was US$ 596 million at 10 December 2012.

The partner’s escrow accounts and UNICEF trust-fund accounts were reconciled manually. The balances of the partner’s accounts were recorded in an MS Access database and reconciled to VISION. Though no financial error was found during the audit, Supply Division was aware of the need to integrate financial monitoring and reporting currently in the MS Access database with VISION so as to minimize the risk of errors and improve efficiency.

Agreed action 6 (medium priority): Supply Division agrees to identify new or enhanced platforms to integrate the management of key partner’s account with VISION, and to present the proposed solution to the Division of IT Solutions and Services and the Division of Financial and Administrative Management for review.

The division expects to complete these actions by April 2014. The responsible officer is the Director of Supply Division.

Conclusion
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to the implementation of the agreed actions, the control processes governing Procurement Services in Supply Division were generally established and functioning during the period under audit.
Annex A: Methodology, definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews and testing samples of transactions. The audit compared actual controls, governance and risk management practices found in Supply Division against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. Supply Division reviews and comments upon a draft report before the departure of the audit team. The Director and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee’s (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF’s auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the division management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:
[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over [audit area] were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIA concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIA concluded that the controls and processes over [audit area], as defined above, needed significant improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word “significant”.

The audit team would normally issue an unqualified conclusion for a division/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the division was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a qualified conclusion will be issued for the audit area.

An adverse conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes “significant” is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.