



**PERFORMANCE AUDIT**

**OF**

**UNDP GLOBAL PROCUREMENT**

**Report No. 2336**  
**Issue Date: 19 August 2021**

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## Report on the Performance Audit of UNDP Global Procurement Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of UNDP global procurement from 24 May to 25 June 2021. Performance auditing is an independent examination of an entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely.

The audit aimed to assess the adequacy and effectiveness of the governance, risk management, and control processes within UNDP global procurement. The audit focused on the procurement services provided by the Office of Procurement (OP), formerly the Procurement Support Unit, of the Bureau for Management Services (the Bureau). It did not cover procurement managed locally by Country Offices as this is reviewed during Country Office audits performed by OAI.

The audit addressed the following performance audit questions:

### 1. Did UNDP establish effective governance to provide global procurement services?

- a. Is there an effective organizational structure as well as adequate capacity to provide global procurement services?
- b. Are established terms of reference for the OP teams in line with the actual global procurement practices?

### 2. To what extent is UNDP effective in fulfilling the general procurement principles when managing global procurement?

- a. Are risks that may negatively affect UNDP's ability to deliver on global procurement adequately managed?
- b. Were the measures that UNDP put in place effective to successfully provide global procurement services during the COVID-19 pandemic?

### Overall audit rating

OAI assessed the global procurement practices within UNDP as **satisfactory/some improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in governance (absence of a global procurement strategy and organizational structure of OP).

**Key recommendations:** Total = **2**, high priority = **1**

The two recommendations aim to ensure the achievement of the organization's strategic objectives.

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) recommendation is presented below:

Weaknesses in governance over global procurement services (Issue 1)

The Procurement Strategy had not been finalized or reviewed and approved by the Bureau's management and the organizational structure for global procurement has not been finalized. The preparation for the procurement strategy for the next programme period (2022–2025) had not yet started. The absence of a global procurement strategy may not give OP clear direction on how to effectively provide global procurement services, which may impact its ability to achieve goals aligned with the corporate strategy

Recommendation 1: The Bureau for Management Services should develop and implement an action plan with milestones to facilitate the preparation of the new global procurement strategy and implementation of structural changes in the Office of Procurement.

### Management comments and action plan

The Assistant Administrator and Director, Bureau for Management Services, accepted the two recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. About global procurement

UNDP's global procurement comprises of specialized procurement conducted on behalf of UNDP business units worldwide and at headquarters, including the establishment of Long-Term Agreements, capacity-building, procurement certification, and programme support.

The Office of Procurement (OP) of the Bureau for Management Services (the Bureau) provides the above-mentioned global procurement support to Country Offices and other UNDP business units to ensure efficient purchasing processes that deliver best value for money, fairness, integrity and transparency, and effective international competition in the best interest of UNDP. OP helps Country Offices and headquarters units to keep pace with the growth in volume and complexity of procurement at UNDP, particularly as a response to the COVID-19 pandemic starting in 2020. OP teams are located in New York, Copenhagen, and Kuala Lumpur.

In response to the COVID-19 pandemic, UNDP has put special procurement measures in place, which include: (1) lifting of the restriction on national competition; (2) reducing the minimum bidding period from two weeks to one week; (3) expediting clearances; (4) use of Direct Review at the Contracts, Assets and Procurement Committee (CAP) level for any exigent procurement action up to the business unit's increased Delegation of Procurement Authority; and (5) using existing provisions – all Long-Term Agreements that are due to expire in the next 6 months may be extended further up to 12 months.

In August 2020, the Bureau contracted an audit firm to conduct a review of its procurement functions. The objectives of the functional review were to evaluate existing business processes, to assess procurement tools and technology, and to develop a vision and implementation strategy. The review was completed at the end of December 2020. It covered the organizational structure, procurement strategy and implementation plan and came up with recommendations for consideration by the Bureau. Based on the PowerPoint presentation shared with the audit team, the audit team noted that the review resulted in high priority recommendations relating to a new procurement operating model, modernized technological solutions, and oversight and data management. At the time of the audit, the audit firm's report was not made available to the audit team.

The last audit of UNDP's global procurement was conducted by OAI in 2018 (Audit Report No. 2021, issued in December 2018).

## II. Audit methodology

Performance audit questions 1 and 2 were addressed through a combination of documentation reviews, system walkthroughs, interviews with the Bureau's management, and OP team leaders and key staff members.

## III. Audit results

Conclusions on the performance audit areas:

### Question 1: Did UNDP establish effective governance to provide global procurement services?

The organizational structure for OP and the terms of reference for OP teams had not been finalized despite OAI's recommendation in the previous audit. Specifically, "The Bureau for Management Services should address the weaknesses in the organizational structure and scope of work of OP teams by: (a) reviewing the structure of OP teams and clearly defining the role and scope of each team, taking into consideration the results of the functional review of health procurement services; (b) establishing terms of reference for each OP team and sharing them with all UNDP business units; and (c) filling vacant positions and reducing reliance

on consultants, where possible.” The Bureau also continued its reliance on consultants performing staff functions.

Additionally, the audit team noted that the Procurement Strategy (2018–2021) had not been finalized while the preparation of the strategy for the next programme period (2022–2025) had not started.

**Question 2: To what extent is UNDP effective in fulfilling the general procurement principles when managing global procurement?**

Overall, the audit team assessed that OP fulfilled the general procurement principles, i.e., best value for money; fairness, integrity, and transparency; effective international competition; and the interest of UNDP when managing the global procurement.

Based on the review of supporting documentation, the audit team noted that OP had generally complied with UNDP policies and procedures in managing its global procurement activities in support of UNDP Country Offices, and at the regional and headquarters levels.

The Bureau/OP put in place mitigating controls to manage risks that may negatively affect UNDP’s ability to deliver on global procurement. For example, OP set up a COVID-19 response team to address increased and urgent procurement activities during the audit period. Furthermore, measures that UNDP put in place were generally found effective for OP to successfully provide global procurement. Specifically, the review of the Bureau’s COVID-19 procurement dashboard did not find any notable delays in the delivery of goods and services. Also, feedback received from the client surveys conducted by OP showed satisfactory results on the global procurement services.

**Audit criteria**

The audit team used the following audit criteria to assess the adequacy and effectiveness of the governance, risk management, and control processes within UNDP global procurement:

UNDP Financial Regulations and Rules

- Regulation 21.02 - The following general principles shall be given due consideration when exercising the procurement functions of UNDP: best value for money; fairness, integrity and transparency; effective international competition; and the interest of UNDP.

UNDP Programme and Operations Policies and Procedures - Procurement

- All procurement activities require procurement strategies to ensure that they are aligned with the UNDP Strategic Plan. Procurement strategies will seek to meet identified development goals and to mitigate existing risks.
- Sourcing and market research should include defining the sourcing method, conducting market research, identifying vendors, and appraising and managing vendors. A business unit must ensure that adequate controls are in place for the evaluation of offers, which must be conducted in a manner that is fully consistent with the rules defined in the solicitation document distributed to the offerors.

**High priority recommendation:**

- (a) The Bureau for Management Services should develop and implement an action plan with milestones to facilitate the preparation of the new global procurement strategy and implementation of structural changes in the Office of Procurement (Recommendation 1).

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**Medium priority recommendation:**

- (a) The Bureau for Management Services should ensure the timely conversion of consultant contracts (Recommendation 2).

The detailed assessment is presented below:

**1. Did UNDP establish effective governance to provide global procurement services?**

The audit team noted the absence of a global procurement strategy and weaknesses in OP's organizational structure.

**Issue 1**      Weaknesses in governance over global procurement services

Sound governance is supported by strategy and accountability. According to the 'UNDP Programme and Operations Policies and Procedures', procurement strategies will seek to meet identified development goals and to mitigate existing risks. The Bureau is expected to establish a procurement strategy to determine if the services are effective in achieving its goals. The Bureau should also establish an organizational structure to define clear roles and assign accountability.

Organizational structure had not been finalized

The audit of UNDP's global procurement services in 2018 (OAI's Audit Report No. 2021, issued on 21 December 2018) identified weaknesses in the organizational structure and scope of work of OP teams. Specifically, OAI noted that the terms of reference of OP teams based in Kuala Lumpur, Copenhagen, and New York had not been finalized, the absence of synergies between two health teams in Copenhagen providing the same health-related procurement services, and high reliance on consultants.

In the 2018 audit report, OAI recommended that "The Bureau for Management Services should address the weaknesses in the organizational structure and scope of work of OP teams by: (a) reviewing the structure of OP teams and clearly defining the role and scope of each team, taking into consideration the results of the functional review of health procurement services; (b) establishing terms of reference for each OP teams and sharing them with all UNDP business units; and (c) filling vacant positions and reducing reliance on consultants, where possible."

In March 2020, OAI closed the above recommendation as the Bureau had provided draft terms of reference for OP teams. The Bureau also shared draft structures for the different teams, including the conversion of posts from individual contracts to fixed-term appointment contracts and/or creation of new posts under fixed-term appointment contracts.

However, the above were not finalized. Specifically:

- A. Terms of reference of the OP teams were not finalized. This had in some cases resulted in overlapping of procurement areas. For example, the procurement of IT hardware was undertaken by both the OP-Kuala Lumpur team and OP-Crisis Preparedness and Response, Renewable Energy Technologies, and Environment & Climate Change teams.
- B. Two OP teams (Health and Global Fund Health Implementation Support Team) in Copenhagen remained involved with medical/pharmaceutical procurement despite the issue raised in the previous audit regarding duplication or overlapping functions of these teams. OP had prepared a business case for a

consolidated Global Health Procurement Team that would cover all aspects of medical/pharmaceutical procurement.

OP explained that all actions towards the finalization of OP's organizational structure were on hold pending decisions following the functional review and the arrival of the new Director of OP.

The review had been shared with the Regional Bureaux and the new Director of OP, who would work together on implementing some of the proposals. The Bureau Director explained that a specific timeline was not in place; however, this would be one of the key priorities of the new OP Director.

- C. OAI's previous audit of global procurement noted the high use of consultants. Specifically, 18 of 50 personnel (36 percent) in OP were consultants holding an individual contract (IC). In the current audit, the audit team noted that 17 out of 57 personnel (30 percent) were consultants. This high reliance on consultants was mainly due to a staff hiring freeze (see table below).

Moreover, 3 of the 17 consultants had been working in OP for more than three years, and their contracts had been extended several times for up to six months through contract amendments/extensions.

Unit - Location	Fixed Term Appointments	Temporary Appointments	Junior Professional Officer/ UNV*	Individual Contractor	Total
OP – New York	5	2		3	10
OP – Kuala Lumpur	2				2
OP – Copenhagen	25	2	4	14	45
<b>Total</b>	<b>32</b>	<b>4</b>	<b>4</b>	<b>17</b>	<b>57</b>

Source: Office of Procurement, June 2021

\* UN Volunteer

The above consultants were performing staff functions relating to global procurement services, including performing a buyer role in Atlas (enterprise resource planning system of UNDP). However, their terms of reference did not indicate this role in their scope of work and responsibilities. Further, available records reviewed did not include any formal delegation or documentation to reflect consultants' accountability when performing a buyer role.

The organization had introduced a new contractual modality (International Personnel Service Agreements) in early 2021 that would replace the existing IC modality. The existing 17 ICs were subject to conversion to the new contract modality.

Without an accurate organizational structure with clearly defined roles, it is difficult to identify overlaps in responsibilities and assign accountabilities.

#### Absence of a procurement strategy

According to the 'UNDP Programme and Operations Policies and Procedures', all procurement activities require procurement strategies to ensure that they are aligned with the UNDP Strategic Plan. Procurement strategies will seek to meet identified development goals and to mitigate existing risks. They serve to map out the broader approach towards the implementation of corporately identified institutional effectiveness priorities and may be revised or adjusted to reflect new opportunities and lessons learned.

OP shared with the audit team a draft Procurement Strategy (2018–2021), which had not been finalized or reviewed and approved by the Bureau's management. The draft strategy was prepared by OP and based on a comprehensive risk analysis of UNDP's procurement portfolio. It also provided recommendations or solutions to key constraints identified, including strengthening OP capacity, and reducing transaction costs



for processing repetitive procurement categories. Due to the absence of a formal procurement strategy, it was unclear whether the global procurement services provided by OP was effectively supporting the organization in achieving its development objectives.

In addition, the audit team was informed by the Bureau that the preparation for the procurement strategy for the next programme period (2022–2025) had not yet started but it would be developed after finalization of the new UNDP strategy. The Director of the Bureau indicated that the preparation of a procurement strategy would be one of the main priorities of the new OP Director, who took office in June 2021. An approximate timeline of six months (up to the end of 2021) for developing a strategy was suggested by the Bureau Director.

The absence of a global procurement strategy may not give OP clear direction on how to effectively provide global procurement services, which may impact its ability to achieve goals aligned with the corporate strategy.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Bureau for Management Services should develop and implement an action plan with milestones to facilitate the preparation of a new global procurement strategy and implementation of structural changes in the Office of Procurement.	
<b>Management action plan:</b>	
The Bureau for Management Services accepts this recommendation and will prepare, develop and implement an action plan with milestones to facilitate the preparation of a new global procurement strategy and implementation of structural changes in the Office of Procurement.	
<b>Estimated completion date:</b> September 2022	

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Bureau for Management Services should ensure the timely conversion of consultant contracts.	
<b>Management action plan:</b>	
The Bureau for Management Services accepts this recommendation and will convert consultants who perform staff functions to IPSA/NPSA contracts by the corporate deadline of December 2021.	
<b>Estimated completion date:</b> December 2021	

## 2. To what extent is UNDP effective in fulfilling the general procurement principles when managing global procurement?

The audit team assessed that OP fulfilled the general procurement principles (i.e., best value for money; fairness, integrity, and transparency; effective international competition; and the interest of UNDP) when managing global procurement.

During the audited period, OP processed 8,067 purchase orders for 2,985 vendors valued at \$764 million. The audit team conducted an in-depth review of 81 procurement contracts with a total value of \$193 million (25 percent of all goods and services procured during the audited period), which were processed by OP teams during the audit period.

The Bureau/OP put in place mitigating controls to manage risks that may negatively affect UNDP's ability to deliver on global procurement. For example, OP set up a COVID-19 response team to address the increased and urgent procurement activities during the audit period.

Based on the review of supporting documentation, the audit team noted that OP had generally complied with UNDP policies and procedures in managing its global procurement activities in support of UNDP Country Offices and at the regional level. For example, OP continued to comply with the required minimum of two weeks' notice for IC and non-IC procurement. There was also evidence of review by the Regional Advisory Committee on Procurement/Advisory Committee on Procurement to expedite procurement requirements for exigent procurement actions. Further, the audit team noted the effective role of OP in ensuring that required documentation and procedural review requirements for headquarters procurement needs were generally in compliance with UNDP procurement policies and procedures, including any specific Note-to-File associated with specific cases. Furthermore, measures that UNDP put in place were generally found effective for OP to successfully provide global procurement. Specifically, the review of the Bureau's COVID-19 procurement dashboard did not find any notable delays in the delivery of goods and services. Also, feedback received from the client surveys conducted by OP showed satisfactory results on global procurement services. Additionally, the audit team noted the independent oversight role of the procurement review committee in ensuring that UNDP is effective in fulfilling its prescribed general principles when reviewing procurement cases presented for its review/approval in support of the Chief Procurement Officer.

The 'UNDP Programme and Operations Policies and Procedures' require procurement officers to undertake due diligence to ensure that establishing a business relationship with a vendor would be in the best interest of UNDP. This includes maintaining accurate and complete vendor records in Atlas. During the audit period, OP teams created vendor records in Atlas and made revisions to existing vendor records, as necessary. The audit team noted an area for improvement in the management of vendor records, as described below.

### **Issue 2**      Management of vendor records can be improved

Vendor records need to be monitored for accuracy and completeness to ensure that payments are correctly made and do not lead to financial losses for UNDP.

In 2016, OAI conducted an audit of vendor management (Report No. 1602, issued on 24 June 2016). OAI made a recommendation to address weaknesses relating to the quality of data on UNDP vendors in Atlas, such as the existence of duplicate vendors, vendors with the same bank account, and missing key vendor details.

In response to the recommendation, the Bureau created a module in Atlas called the "vendor workbench" to facilitate monitoring and cleaning up of vendor issues (e.g., duplicate bank accounts and incomplete data). The vendor workbench should facilitate the review and directly correct anomalies such as missing addresses

and duplicate bank accounts. The Bureau also indicated that mandatory fields had been set up in the Atlas vendor profile, which included email addresses and telephone numbers of vendors.

In addition, the Bureau established the 'Standard Operating Procedures for Vendor Management' that required business units, among other things, to conduct quarterly cleaning of vendor records using the vendor workbench.

For the current audit, the review of the vendor workbench on 9 June 2021 showed exceptions for seven out of the nine risk indicators for vendor records created at the headquarters level, which mainly pertained to vendors with duplicate bank accounts and duplicate names, as well as vendors with missing contact details (i.e., email and telephone numbers). The audit team noted that fields that had been reported as mandatory were not set up as intended.

Indicators		
View 5		1-9 of 9
	Description	Vendor Count
1	<a href="#">Vendor with Duplicate Bank Account</a>	366
2	<a href="#">Vendor Records Changed in Last 7 Days</a>	105
3	<a href="#">Remit To doesn't match Vendor ID</a>	0
4	<a href="#">Staff with missing Index Number</a>	6
5	<a href="#">Vendor with missing Address</a>	4
6	<a href="#">Vendor with missing Email ID</a>	521
7	<a href="#">Vendor with missing Phone No.</a>	725
8	<a href="#">Unapproved for more than 30 Days of Creation</a>	0
9	<a href="#">Duplicate Vendor Name</a>	59

Source: Atlas, June 2021

Specifically, for the vendor records created/modified by OP teams, the vendor workbench showed 5 vendors with duplicate names, 13 vendors with missing telephone numbers, 8 vendors with missing email addresses and 27 vendors with duplicate bank accounts. As of the end of the audit, OP informed OAI that the above exceptions were reviewed, and appropriate corrective actions were taken or planned. Nevertheless, the OP, as part of its oversight, did not review or take adequate actions on the status of risk indicators from the vendor workbench.

During the audit in 2020, the UN Board of Auditors also noted weaknesses in vendor management and recommended to regularly review the vendor databases to exclude ineligible vendors.

The Bureau indicated that the preparation for the new enterprise resource planning system for processing of procurement transactions was ongoing. It was expected that the new system would address issues on vendor records. For vendor creation, the Bureau/OP indicated that it will be done by vendors directly in the new enterprise resource planning system.

The existence of inaccurate and incomplete vendor records increases the risk of ineligible payments being made, which may lead to financial losses for UNDP.



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**OAI comments:**

As the design of the new enterprise resource planning system had not been completed, the audit team did not make an assessment on the planned changes in vendor management. Nevertheless, the review of the progress on the enhancement of controls within vendor records will be covered during OAI's planned audit of vendor management. Accordingly, OAI did not make a recommendation.

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## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Fully Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.