**UNITED NATIONS DEVELOPMENT PROGRAMME**
**Office of Audit and Investigations**

**AUDIT**

**OF**

**UNDP AFGHANISTAN**

**PROCUREMENT MANAGEMENT**

**Report No. 1124**
**Issue Date: 30 July 2013**

### Report on the audit of UNDP Afghanistan - Procurement Management
### Executive Summary

From 4 to 22 November 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of procurement management in the UNDP Country Office in Afghanistan (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 31 July 2012. During the period reviewed, the Office procured goods and services totalling $75 million. The last procurement audit of the Office was conducted by OAI in June 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

### Audit rating

OAI assessed the Office procurement management as **unsatisfactory**, which means "Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised." This rating was due to weaknesses in management of the procurement functions, solicitation and evaluation of offers, and in contract management. Ratings per sub-areas are summarized below:

| Audit Areas | Not Assessed/ Not Applicable | Unsatisfactory | Partially Satisfactory | Satisfactory |
|---|---|---|---|---|
| | | | | |
| **1. Procurement management** | | <span style="background-color:red">    </span> | | |
| | | | | |
| 1.1 Management of procurement function | Partially Satisfactory | | | |
| 1.2 Procurement planning and requisition | Satisfactory | | | |
| 1.3 Sourcing and solicitation | Unsatisfactory | | | |
| 1.4 Evaluation, procurement review, and contract award | Unsatisfactory | | | |
| 1.5 Contract management | Unsatisfactory | | | |

### Key issues and recommendations

The audit raised six issues and resulted in seven recommendations, of which five (71 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

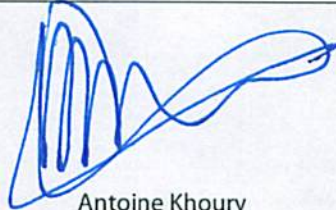The high priority recommendations are as follows:

| | |
|---|---|
| Sourcing and solicitation (Issue 2) | <u>Inadequate controls over the receipt of offers</u>. Controls over bids received manually were inadequate. Procurement staff members were given inappropriate responsibility for and access to the procurement offers submitted manually. OAI recommends that the Office enhance controls over the receipt of bids submitted manually by: (a) maintaining a register of bids received; and (b) ensuring procurement personnel are not directly involved in receiving bid documents.<br><br><u>Controls over bids received electronically were also inadequate</u>. The Information and Communications Technology staff had inappropriate responsibility for the passwords used to secure the email accounts created to receive procurement offers submitted electronically. OAI recommends that the Office enhance controls over the receipt of bids submitted electronically by: (a) coordinating with the Office of Information Systems and Technology on ways to prevent inappropriate access to procurement email addresses used for receiving offers; and (b) establishing procedures to properly identify and retrieve email offers. |
| Evaluation, procurement, review, and contract award (Issue 3) | <u>Inadequate management of offers</u>. The existing processes and procedures were inadequate in ensuring that the evaluation of offers was proper and effective. The Office should enhance controls over the opening and evaluations of offers, including: (a) ensuring full adherence to the required deadlines for receiving and opening offers; (b) ensuring that only complete offers which include all documentation requested are included in the evaluation process; (c) maintaining proper documentation and ensuring that bids are evaluated using the criteria and methodology defined in the invitation to bid; and (d) ensuring that international staff participate in the Contracts, Assets and Procurement Committee. |
| Contract management (Issue 4) | <u>Weak management of fuel procurement, receiving and distribution</u>. In the period from January 2010 to November 2011, the Office procured fuel for some $6.5 million. OAI noted serious shortcomings in determining fuel prices and the management of receipt, consumption, and re-ordering of fuel. Between August 2010 and January 2012, the Office did not comply with the established price criteria when computing the lowest average, which resulted in a financial loss of approximately $25,000. The Office also did not ensure adequate segregation of duties between the receipt, storage and distribution of fuel from the tank at the Office premises. Lastly, the fuel coupons were not properly safeguarded from unauthorized use. OAI recommends that the Office adhere to the Programme and Operations Policies and Procedures and ensure effective controls over the procurement and the management of fuel by: (a) ensuring that the procurement process allows for adequate and open competition; (b) ensuring that there is effective oversight over the receipt, storage, and distribution of fuel; and (c) maintaining master lists of personnel authorized to issue fuel coupons as well as one that details the vehicles authorized to be refuelled from the supplier pumping stations, and providing a copy of each to the supplier on a regular basis. |
| (Issue 6) | <u>Inadequate controls to prevent duplicate vendor records</u>. In its previous audit (Audit Report No. 745) OAI had recommended that the Office enhance vendor management controls by deactivating all duplicate vendor profiles in Atlas. However, management |

had not taken appropriate action, and the Office still had 86 active duplicate vendor names and 172 vendors with duplicate bank account details in Atlas. OAI recommends that the Office follow the requirements of the Programme and Operations Policies and Procedures in vendor management by: (a) establishing vendor verification procedures prior to approving new vendor profiles in Atlas; (b) conducting regular reviews of existing vendors and deactivating all vendors with duplicate profiles and/or bank account details; and (c) assigning clear and distinct responsibilities for vendor creation, approval and maintenance, as well as limiting the number of staff with this authority.

The implementation status of previous OAI audit recommendations (Report No. 745, March 2011) was also validated. The current audit noted that two previous recommendations were actually not implemented as the weaknesses continued to exist (Issues 1 and 2 of this report).

**Management comments and action plan**

The Country Director accepted all seven recommendations and is in the process of implementing them.

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