



## **United Nations Population Fund**

*Delivering a world where every pregnancy is wanted,  
every childbirth is safe and  
every young person's potential is fulfilled.*

### **OFFICE OF AUDIT AND INVESTIGATION SERVICES**

### **AUDIT OF THE UNFPA THIRD PARTY PROCUREMENT PROCESS**

**FINAL REPORT**

Nº IA/2023-15

**13 October 2023**

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### Executive Summary

1. The UNFPA Office of Audit and Investigation Services (OAIS) conducted an audit of the UNFPA Third Party Procurement (TPP) process (the process). Audit planning activities commenced on 20 July 2022 with a visit to the Supply Chain Management Unit (SCMU) in Copenhagen from 8 to 12 August 2022. The audit results were discussed with the relevant management at briefing meetings held between 6 September and 15 November 2022 through the issuance of audit issues and recommendations. The audit was completed on 24 May 2023. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to Office Management on 25 August 2023. A final Management response was received on 3 October 2023 and is reflected in this report.

2. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and controls relating to the process, particularly in the following areas:

- (a) Governance
- (b) Operations

#### Background

3. Third Party Procurement (TPP) refers to UNFPA procurement services provided to external partners by UNFPA's Supply Chain Management Unit (SCMU / the Unit). Through this service, TPP customers, including governments, intergovernmental organizations, NGOs or United Nations entities, can utilize UNFPA's purchasing power and expertise to obtain competitive prices on reproductive health supplies. It has become a strategic priority for UNFPA to mobilize domestic resources by further advocating for TPP services to be offered to developing and middle-income countries. The TPP operates as a not-for-profit partnership.

4. The audit covered the activities of the process from 1 January 2020 to 31 December 2021. The total value of the related TPP services, based on the Proforma Invoices, amounted to approximately \$76.7 million. This was the first OAIS audit of the process.

5. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (The IIA).

#### **Audit rating**

6. OAIS issued an overall audit rating of "***Partially Satisfactory with Some Improvement Needed***". This means that the assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited area should be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

7. This rating is due to the identification of high priority recommendations to address potential high risks, such as, (a) the lack of alignment between TPP services and UNFPA's strategic objectives, (b) inadequate risk management practices, and (c) ongoing challenges related to IT solutions tailored for TPP business operations.

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8. Ratings by key audit areas are summarised in the following table.

<b>Audit ratings by key audit area</b>		
<b><i>Governance</i></b>		<i>Partially Satisfactory with Some Improvement Needed</i>
<b><i>Operations</i></b>		<i>Partially Satisfactory with Some Improvement Needed</i>

9. The audit identified the following practices, which have enhanced governance, strengthened internal controls and improved relationships with TPP customers:

- a) The Office is working on the development of the 2022-2025 TPP strategy to align TPP objectives with the UNFPA Strategic Plan, identify risks and opportunities and provide a blueprint for future TPP modality growth.
- b) A specialized sub-unit has been established to handle transactions with the Global Fund, which accounts for slightly over 50 per cent of all TPP sales since 2018. The Global Fund highly regards the performance of this sub-unit.
- c) The Office is seen as an innovative and cooperative partner by various stakeholders. As one of the examples of innovation, SCMU has surveyed to identify countries interested in bridge funding to speed up the procurement process. The survey results provided the foundation for creating a new funding mechanism for TPP services.
- d) Up to 6 April 2023, UNFPA's product catalogue was publicly available, allowing potential and existing customers to search all available products and their current prices.
- e) The Office created a custom template for the three-way reconciliation process, aimed at aligning billing, procurement, and associated general ledger figures. Additionally, a dedicated template was designed to oversee credit limit balances for deferred payment customers, while another template was introduced to monitor payments received for each Proforma Invoice (PI) and PI released from Order Management Systems (OMS).

### **Areas recommendations noted during the audit**

10. The audit identified areas that require management attention, some of which are strategic in nature and others related to operations and reporting.

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

### **Key recommendations: Total = 10, high priority = 6**

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

#### *Strategic level*

13. From the strategic point of view, there is a need to refine the strategic objectives of the TPP services and align them with the UNFPA Strategic Plan and mandate. This will demonstrate the value of the TPP modality to internal and external stakeholders and provide a framework for evaluating its effectiveness and efficiency. The TPP strategy should also assess the need to reconsider the SCMU organizational structure, team composition and capacity to meet TPP objectives.

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14. In relation to risk management, the Office is recommended to conduct a strategic-level risk assessment of the TPP service, with UNFPA's Enterprise Risk Management (ERM) function to identify critical risks and establish corresponding mitigation measures. If the risk exceeds the acceptable level established by the UNFPA's Risk Appetite Statement, obtain approval from the relevant governing body.

15. There is a need to urgently evaluate, approve and immediately implement a suitable IT solution that satisfies the needs of TPP business operations. A plan of action needs to be developed to sustain TPP operations during the interim period between the recent implementation of Quantum and the integration of the specialized IT solution tailored for TPP business processes.

### **Implementation status of previous OAIS audit recommendations**

16. As this was the first OAIS audit of the process, no review of previous OAIS audit recommendations was undertaken.

### **Management comments and action plan**

17. The Chief, Supply Chain Management Unit, accepted all 10 recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

18. The organizational structure, team composition, and capacity of SCMU to ensure the achievement of TPP objectives, including the implementation of these recommendations has been reviewed as part of the SCMU Realignment Business Case. The case is now pending approval from the Resource Management Committee and the Executive Committee.

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Moncef Ghrib  
Director  
Office of Audit and Investigation Services

### I. AUDIT BACKGROUND

1. As set out in the 2022 Annual Work Plan of the Office of Audit and Investigation Services (OAIS), an audit of the UNFPA's Third Party Procurement processes was conducted from 20 July to 15 September 2022. The audit aimed to assess the adequacy and effectiveness of the governance, risk management, and controls relating to the processes, particularly in the following areas:

- (a) Governance
- (b) Operations

#### Third Party procurement in UNFPA

2. Third Party Procurement (hereinafter referred to as TPP or the Process) refers to the UNFPA procurement service provided by the UNFPA's SCMU to external partners.

3. The TPP was established through a cooperative endeavour among key players across the Reproductive Health (RH) community to tackle challenges within the RH supply chain. The UNFPA Financial Regulations and Rules define TPP as procurement conducted by the organization without a direct programme component at the request and on behalf of third parties (referred to here as the customer) where UNFPA acts as an intermediary between them and the supplier and has no involvement after delivery. Through this service, TPP customers, including governments, intergovernmental organizations, NGOs and United Nations entities, can utilize UNFPA's purchasing power and expertise to obtain competitive prices on reproductive health supplies. As a major procurer of reproductive health supplies, TPP customers can benefit from better pricing, terms, and conditions with suppliers and leverage on UNFPA's procurement capabilities. Ultimately, UNFPA can help ensure that TPP customers have access to critical reproductive health supplies they need to improve the health and well-being of women and girls worldwide.

4. In 2019, UNFPA organized the Nairobi Summit jointly with the governments of Denmark and Kenya to scale up the impacts of UNFPA's work at the field and headquarters levels with multiple partners and stakeholders. A key takeaway from this summit was that the ambitious goals set by UNFPA cannot be achieved by relying solely on traditional donor funding. Therefore, expanding the mobilization of domestic resources was a prerequisite to achieving these goals by adopting TPP as a strategic priority<sup>1</sup> for UNFPA in advocating for and offering TPP services to developing and middle-income countries. The TPP operates as a not-for-profit partnership between UNFPA and those entities that avail of the TPP as their procurement modality for critical reproductive health supplies.

#### Governance process

5. UNFPA Service Conditions<sup>2</sup> provide a comprehensive legal framework for the TPP services provided to third party organizations. The Service Conditions set out the terms and conditions of how UNFPA provides procurement services as an intermediary between the customer and supplier. It details the provision of TPP services, rights and responsibilities of those involved in the procurement process, including the roles and obligations of UNFPA and third-party customers. The conditions also specify the procedures for shipment and delivery, handling complaints, disputes and termination. Overall, the UNFPA Service Conditions provide the framework that governs the procurement services UNFPA provides through the TPP services to its external partners.

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<sup>1</sup> UNFPA Supplies Partnership 2021-2030 Phase III Programme Document (pages 4, 18 and 24). *The UNFPA Supplies Partnership is the third phase of the flagship UNFPA thematic trust fund. Through the fund, UNFPA provides support to programme countries so they can strengthen their health systems to deliver voluntary family planning, maternal health services and supplies.*

<sup>2</sup> <https://www.unfpa.org/resources/service-conditions>

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6. The organization of TPP services is divided among (a) four SCMU Procurement Services Teams, (b) the specialized Global Fund Team and (c) the Pre-Positioned/Inventory Management Team. The Procurement Services Teams consist of native speakers of the main languages in their respective regions. This organizational structure enables effective communication with local stakeholders and facilitates procurement transactions. The Procurement Services Teams are responsible for carrying out both development procurement, humanitarian procurement and Third-Party procurement services in accordance with the regular Procurement Procedures, as well as responding to requests for Fast-Track Procedures (FTP)

### *Operations management*

7. In the procurement process for TPP services, customers initiate orders by completing the Request for Proforma Invoice (RFPI) form and submitting it to SCMU. The respective SCMU Country Focal Point then process the RFPIs after verifying the customer's eligibility and requested products. Then, they obtain quotes from Suppliers for products with variable costs before preparing the Proforma Invoice containing all necessary details to submit to the external Party.

8. By confirming and signing the Proforma Invoice, customers accept the UNFPA Service Conditions and enter into a legally binding contract. As a general rule, the TPP services can only be rendered on the basis of advance payment by the customer, except for UN Organizations and certain International Bodies that had been pre-assessed. Upon receiving full payment, SCMU issues its Purchase Order to the Supplier, who then delivers the procured products directly to the customer.

9. It is important to note that once the goods have been delivered and received by the customer in accordance with the Incoterms as per the Proforma Invoice, UNFPA's involvement in the procurement process ends as TPP services do not involve a direct UNFPA programmatic element.

## **II. AUDIT RESULTS**

10. The results of the audit, including good practices identified and matters that require management attention, are presented below per audit area:

### **A. GOVERNANCE**

### **SOME IMPROVEMENT NEEDED**

11. The audit identified the following practices:

- a) The Office has taken steps to develop the TPP Strategy for 2022-2025, refine the TPP objectives in line with the UNFPA Strategic Plan, identify risks and opportunities and provide a blueprint for further TPP modality development.
- b) Since 2018, a specialized sub-unit, led by the Latin America and Caribbean (LAC) Team Lead, has been established within SCMU to handle procurement requests from the Global Fund Principal Recipients which accounts for slightly over 50 per cent of all TPP sales.
- c) The Office is seen as an innovative and a cooperative partner by various stakeholders. As one example of innovation, SCMU has surveyed to identify countries interested in bridge funding to speed up the procurement process. The survey results established a new funding mechanism for TPP services – the Reproductive Health Bridging Fund (RHBF).

12. Based on the work performed, the audit noted the following matters that require management attention:

**Issue 1** TPP modality lacks clear objectives, value propositions, and strategic risk management.

13. The main objective of TPP is to partner with governments, International Financial Institutions, UN Organizations and Non-Governmental Organizations to accelerate progress towards achieving the Three Transformative Results by leveraging UNFPA's procurement scale and expertise and to facilitate the optimizing of domestic resources and donor funds for maximum effectiveness.

14. The UNFPA Financial Regulations and Rules<sup>3</sup> define TPP as procurement without a direct UNFPA programme component. As such, the role of UNFPA is limited to acting as an intermediary between the customer and the supplier in the procurement of sexual and reproductive health commodities but without any involvement in the programme formulation and implementation, needs determination and after delivery of the procured commodities.

15. The aims of TPP align with the priorities of Phase 3 of the UNFPA Supplies Partnership<sup>4</sup>, which focuses on sustainable financing, including domestic resources, to promote national capacity development as the overarching strategic goal of UNFPA. However, the broad goal of TPP services has not been clearly articulated in a clear set of strategic objectives aligned with the UNFPA Strategic Plan and mandate, making it difficult to assess their effectiveness and efficiency. This also affects the Fund's ability to communicate the value proposition of the TPP modality to internal and external stakeholders.

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<sup>3</sup> United Nations Population Fund Financial Regulations and Rules, Regulation 15.3

<sup>4</sup> UNFPA Supplies Partnership 2021-2030 Phase III Programme Document. The UNFPA Supplies Partnership is the third phase of the flagship UNFPA thematic trust fund. Through the fund, UNFPA provides support to programme countries so they can strengthen their health systems to deliver voluntary family planning, maternal health services and supplies.



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16. When the Suppliers directly deliver the commodities to the customers, UNFPA has limited or lost visibility into downstream processes and has no responsibility to ensure that the products reach their intended beneficiaries. This creates a risk of association should there be inappropriate use of the products supplied through the TPP service or any other UNFPA programme. Cases exist when the diversion of specially priced commodities to commercial markets for illicit profit-making has damaged UNFPA's reputation and strained relationships with specific suppliers. OAIS brought these issues to the attention of UNFPA management, who agreed to promptly implement the recommended measures to address and mitigate the associated risks<sup>5</sup>.

17. Additionally, concerns have been raised regarding the organizational structure, team composition, and capacity of SCMU to effectively align with TPP objectives, further complicating the achievement of desired outcomes, it is essential to ensure that SCMU is adequately prepared to undertake TPP operations effectively, with clearly defined roles, responsibilities, and capacity-building measures in place.

<i>Root Cause</i>	<i>Guidelines: Lack of or inadequate corporate policies or procedures (lack of clear objective and strategic alignment)</i> <i>Guidelines: Inadequate risk management processes (inadequate strategic risk management practices)</i>
<i>Impact</i>	<i>The absence of clearly defined TPP objectives hinders the ability to communicate the benefits and value proposition of the TPP modality to internal and external stakeholders.</i> <i>Poor risk management regarding the TPP modality may harm UNFPA's relationship with suppliers and stakeholders and damage the organization's reputation.</i>
<i>Category</i>	<i>Strategic</i>

<b>Recommendation No. 1</b>	<b>Priority: High</b>
<p>As part of developing the TPP Strategy:</p> <ul style="list-style-type: none"> <li>a) Align the TPP service objectives with the UNFPA Strategic Plan and mandate. Develop appropriate result framework to monitor the effectiveness and efficiency of the service and operations.</li> <li>b) Conduct a comprehensive risk-versus-benefit analysis for the TPP service in close collaboration with UNFPA's Enterprise Risk Management (ERM) function. Identify critical risks, establish mitigation measures within UNFPA's risk appetite framework. If the risk exceeds the acceptable level established by the UNFPA's Risk Appetite Statement, obtain approval from the relevant governing body, and</li> <li>c) Implement the measures to mitigate the associated risks.</li> </ul>	

<sup>5</sup> OAIS Inter-Office Memorandum titled 'Issues concerning Product Diversion and review of the Terms and Conditions for Third Party Procurements,' dated 30 March 2022.

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<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit
<u>Status:</u> Agree
<p><b>Management action plan:</b></p> <p>SCMU agrees with the Recommendation No. 1. An external consultant or consulting firm shall be engaged to provide guidance for the development of the TPP Strategy.</p> <p><b>Estimated completion date:</b> October 2024</p>

Recommendation No. 2	Priority: High
In line with the TPP strategy, review and adjust, if necessary, the organizational structure, team composition and capacity of SCMU to ensure the achievement of TPP objectives.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit	
<u>Status:</u> Agree	
<p><b>Management action plan:</b></p> <p>SCMU agrees with the Recommendation No. 2. The organizational structure, team composition and capacity of SCMU to ensure the achievement of TPP objectives has been reviewed as part of the SCMU Realignment Business Case pending approval from the Resource Management Committee and the Executive Committee. Further review may be necessary within a reasonable time after initial implementation of the Realignment.</p> <p><b>Estimated completion date:</b> December 2023</p>	

### **Issue 2** ERP lacks functionalities to manage TPP's daily activities

18. The TPP process relies on two main applications to manage TPP transactions: (a) UNFPA's ERP system, which was previously Atlas and now is Quantum<sup>6</sup>, and (b) SCMU's website<sup>7</sup> (unfpaprocurement.org) that hosts the Product Catalogue and Order Management System (OMS).

19. The initial ERP implementation project (pre-Quantum) included in-built solutions to replace the existing Product Catalogue and OMS. However, due to cost considerations, these solutions were rejected in October 2021 by the UNFPA Information Technology Solutions Office (ITSO). As a result of the launch of Quantum in January 2023, the absence of relevant updates to TPP-specific applications hindered the SCMU's ability to streamline and optimize its TPP business processes and controls. Although no replacement product has been officially approved, the audit team was informed by ITSO in May 2023 that feasible alternatives have been identified for inclusion in the second phase of Quantum, scheduled for 2024.

<sup>6</sup> The new ERP system, Quantum, will continue to provide the required functionality previously available in Atlas.

<sup>7</sup> The website is temporarily unavailable to external users while SCMU works on developing a new application to enhance TPP operational capabilities and eventually integrate it with Quantum.

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20. The audit found that the lack of integration between the OMS and Atlas systems results in a heavy reliance on manual data entry and additional reconciliation efforts. For instance, the number of invoices requiring manual reconciliation rose dramatically from 73 in 2020 to 161 in 2021 due to factors such as the rising number of TPP transactions and the impact of the COVID-19 pandemic. This has placed an increased workload on the SCMU and led to longer lead times for reconciliations and dissatisfied TPP customers. Similarly, the application used to run the SCMU's website does not meet organizational needs.

21. Without a replacement for the TPP-specific applications, implementing TPP processes in the new IT infrastructure could experience significant delays, impacting the effectiveness and efficiency of TPP operation. In our consultation with the ERP Project Management, we were informed that IT solutions are being developed for TPP in 2024 to ensure that necessary IT infrastructure is in place to support TPP operations effectively.

*Root Cause*                      *Guidelines: Inadequate planning*

*Impact*                              *The lack of a proper solution for managing TPP operations seriously threatens the effectiveness and efficiency of these crucial operations. This could result in costly errors and control breakdowns and lead to customer dissatisfaction, potentially damaging UNFPA's reputation.*

*Category*                         *Strategic*

<b>Recommendation: No. 3</b>	<b>Priority: High</b>
Evaluate, approve, and implement a suitable IT solution aligned with the requirements of the TPP business processes.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit, in coordination with the Director, Information Technology Solutions Office	
<u>Status:</u> Agree	
<b>Management action plan:</b> ITSO and SCMU are jointly working on procuring and implementing a new e-commerce solution.	
<b>Estimated completion date:</b> December 2024	

<b>Recommendation No. 4</b>	<b>Priority: High</b>
Develop an action plan to sustain the TPP operations during the interim period between the implementation of Quantum and the integration of the specialized IT solution tailored for the TPP business processes.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit, in coordination with the Director, Information Technology Solutions Office	
<u>Status:</u> Agree	

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### Management action plan:

SCMU and ITSO agree with the Recommendation No. 4. SCMU has devised an interim process for TPP and ITSO has reconfigured the existing TPP system environment for internal use only.

**Estimated completion date:** November 2023

### Issue 3 Delayed implementation of the Reproductive Health Bridge Fund

22. According to UNFPA Financial Regulations and Rules<sup>8</sup>, TPP should "*be undertaken on the basis of full payment in advance of the total cost of the procurement. Exceptionally, other payment terms may be approved by the Chief Procurement Office (CPO)*". Other United Nations agencies and The Global Fund are the only customer-approved exceptions to this rule.

23. Full payment is required from TPP customers before purchase orders are issued and submitted to a supplier, causing several funding and delivery challenges. Some examples are:

- a) Lengthy and cumbersome processes, particularly for governments, to make funds available and administer payments due to different entities responsible for the procurement (e.g., Ministries of Health) and payments (e.g. Ministries of Finance) functions, can negatively impact customer satisfaction and limit the potential benefits derived from a more timely and efficient delivery of TPP services.
- b) As suppliers can only start their manufacturing process once a purchase order is received from UNFPA, the requirement for advance payments can create delivery challenges, making it difficult for suppliers to comply with the initial delivery timeline to avoid delays. One supplier specifically mentioned that this is a drawback of the TPP process. Suppliers whom the auditors reached out indicated that reducing the time between providing a quotation and receiving the purchase order from UNFPA would improve the procurement process and lead to shorter lead times.

24. To help the government utilize their domestic resources more effectively, UNFPA created the Reproductive Health Bridge Fund (RHBF) to help increase access to affordable quality assured SRH supplies by addressing financial challenges. The RHBF is a revolving fund for procurement requests that allows governments who want to use their own funds but are having trouble making advance payments to apply for bridge funding to quicken the procurement process. The borrowed funds will be repaid later, more conveniently, replenishing the revolving fund for future bridge lending. The office, through a survey, identified 36 countries which have expressed interest in using the RHBF. In addition, a pilot scheme using regular UNFPA funds to test the process from the operational point of view and found the results satisfying. However, at the time of writing the audit report, the RHBF was still not operational.

*Root Cause* Resources: Non-availability of funds to defray advance payments primarily due to lengthy and complex processes involving different entities responsible for procurement and payments, particularly for government customers)

*Impact* Requiring advance payments can impede a timely and efficient procurement process, leading to negative consequences for all parties involved (expired quotes, canceled purchase orders and extended lead times).

*Category* Strategic

<sup>8</sup> United Nations Population Fund Financial Regulations and Rules, Regulation 15.3

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<b>Recommendation No. 5</b>	<b>Priority: Medium</b>
Expedite the implementation of the RHBF as part of the TPP Strategy in collaboration with the Resource Mobilization and Strategic Partnership branches.	
<u>Manager Responsible for Implementation:</u> Director of Communication and Strategic Partnerships in coordination with Chief, Supply Chain Management Unit.	
<u>Status:</u> Agree	
<b>Management action plan:</b>	
The RH Bridge fund will be relevant for countries experiencing shrinking fiscal space and pressure on budgets. DCS have explored multilateral possibilities for the instrument which, however, remain limited. Together with SCMU and other relevant divisions, DCS will redouble efforts to engage donors in funding the RH Bridge Fund. This will include proactive engagement with donors interested in the supplies programme as well as using key events to promote the fund, such as the Supplies Partnership, Annual Consultations with donors and bilateral meetings with senior management and partners.	
<b>Estimated completion date:</b> January 2025	

**Issue 4** The appropriateness of the TPP handling fee has not recently been re-evaluated.

25. In September 2021, the Procurement Service Branch (PSB) reviewed procurement fees in collaboration with the Division of Management Services (DMS). The need for the review was primarily driven by the absorption of PSB into the newly created Supply Chain Management Unit (SCMU), which, inter alia, involved creating new positions while completely removing the office's funding from the Institutional Budget. As a result, the fee scheme had to be revisited to ensure that procurement service fees generate sufficient revenue to cover the relevant costs directly incurred by SCMU in servicing the TPP process.

26. The procurement fee model aimed to ensure that fees generated from procurement activities matched the costs required to carry out those activities and minimize cross-subsidization between funding sources, with the exception of the third-party procurement services rate that remained unchanged.

27. With regards to the unchanged TPP fee rate, the PSB -DMS Review Note explained the following: *"The TPP fee remains unchanged. With the expected increase of TPP activities in the years to come, thanks to the proposed creation of a bridge funding mechanism to support the mobilization of domestic resources, TPP sales are expected to increase and, as a result, economies of scale can be achieved."*

28. However, the assumptions behind maintaining the TPP fee were not aligned with the basic cost-recovery principle of the model. No evidence was provided during the audit to demonstrate that revenues generated from the delivery of TPP services are sufficient to fund the total cost necessary to deliver the TPP services. As a result, there is a likelihood of cross-subsidization between the third-party procurement services and other procurement categories.

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29. The audit noted that any revision to TPP fees should be carried out as part of a comprehensive review of the SCMU cost recovery model. The handling fee review should consider the allocation of costs between regular and third-party procurement, inter-dependencies between various procurement service fee rates and other considerations such as budgeting and fee-sharing mechanisms with the Country Office. The audit understands that management is planning to review the SCMU cost recovery model introduced in 2021 to assess the results of its implementation and make any required revisions.

*Root Cause*                      *Guidelines: Lack of or inadequate corporate policies or procedures that apply to the administration, funding, and delivery of TPP services.*

*Impact*                              *An inadequate level for the TPP handling fee could result in unfair cross-subsidization of TPP services at the expense of regular UNFPA procurement. This could lead to an unfair allocation of resources and create financial challenges for the organization.*

*Category*                          *Strategic*

<b>Recommendation No. 6</b>	<b>Priority: High</b>
Reevaluate the existing 5% TPP handling fee during the forthcoming SCMU cost recovery model review, including benchmarking the fee structure against analogous UN organizations offering similar Third-Party Procurement (TPP) services.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit	
<u>Status:</u> Agree	
<b>Management action plan:</b>	
SCMU agrees with the Recommendation No. 6.	
<b>Estimated completion date:</b> June 2024	

### **Issue 5**    Partial coverage and limited reporting of KPIs related to the TPP services

30. There is currently no TPP management reporting framework for managing and reporting on the TPP process. Despite the SOP's requirement for performance measurement, the absence of KPIs has left the office without essential data and metrics to effectively identify areas for improvement. and make changes to increase efficiency and volume, reduce costs and improve customer and supplier relations. The office monitors and reports on ten key performance indicators introduced by the Global Fund to measure the performance of UN agencies and Procurement Service Agents including (a) OTIF (On-Time-In-Full) (b) Request preparation lead time (c) PO Turnaround (d) Variance against original freight lead time (e ) Variance between freight quote with buffer and actual freight costs (f) Variance between freight quote with buffer and actual freight costs (g) Invoices submitted complete and accurately (h) Final Invoices submitted on a timely manner (i) Applicable shipment data submitted complete without error, and (j) Incidents reported to Global Fund within 3 calendar days.

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31. The audit notes that the current KPIs used for reporting to the Global Fund can also be used internally by management to measure its TPP services' performance to make business decisions. In addition, management could introduce additional KPIs or metrics to provide valuable insights into other areas not covered by the Global Fund metrics. The office has considered developing various KPIs since 2016. However, work around developing a TPP management reporting framework is still underway, and the entity is lacking integrated systems for obtaining indicators and reports. From the operational point of view, the existing reporting process for calculating KPIs for the Global Fund still requires significant time-consuming manual input by staff.

*Root Cause*            *Guidelines: Lack of or inadequate corporate policies or procedures.*

*Impact*                *The absence of a management reporting process hinders the ability to evaluate the performance of TPP services and make informed decisions.*

*Category*             *Reporting*

<b>Recommendation No. 7</b>	<b>Priority: Medium</b>
Create a set of key performance indicators (KPIs) and other metrics related to TPP transactions to give management the information it needs to evaluate the performance of TPP services and make informed business decisions. Collaborate with ITSO to establish an automated reporting process to calculate these metrics to optimize data accuracy and staff time.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit, in coordination with the Director, Information Technology Solutions Office.	
<u>Status:</u> Agree	
<b>Management action plan:</b> SCMU agrees with the Recommendation No. 7.	
<b>Estimated completion date:</b>	

### B. OPERATIONS

### SOME IMPROVEMENT NEEDED

32. The audit identified the following practices:
- a) UNFPA's Product Catalogue is publicly available, allowing potential and existing customers to access and search all available products and current prices.
  - b) The Office created a custom template for the three-way reconciliation process, aimed at aligning billing, procurement, and associated general ledger figures. Additionally, a dedicated template was designed to oversee credit limit balances for deferred payment customers, while another template was introduced to monitor payments received for each Proforma Invoice (PI) and PI released from Order Management Systems (OMS).

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33. The audit noted the following matters that require management attention:

**Issue 6** Incomplete and inconsistent application of TPP customer risk assessment methodology

34. According to the TPP's SOP, a risk assessment must be performed and completed when an RFPI is estimated to exceed \$500,000 or when a new RFPI brings a customer's total accumulated value of procured commodities surpasses US\$500,000 within the last 12 months preceding the date of the newly submitted RFPI. When this process was reviewed, it was determined that the required risk assessment was not consistently done with five out of 12 transactions tested, even though the thresholds were exceeded.

35. In addition, the risk assessment is conducted in a template covering political, technical, legal, economic and social risks. The risk assessment template does not consider other reputational risks, such as the (a) inappropriate use of procured commodities during the distribution process, (b) risks events that occurred while conducting business with customers, (c) product diversion, and (d) market risks (supplies ending up being sold in the open market).

36. Furthermore, since risk assessment is required only when the procurement by a customer exceeds \$500,000, new customers with orders below \$500,000 are not subject to the risk assessment process, although their acceptance involves some of the above-mentioned risks. This risk could be mitigated if a risk assessment is conducted as part of the eligibility assessment by a potential customer.

37. Finally, the risk assessment exercise is not required when TPP customers are UN agencies or implementing partners of the Global Fund, as UNFPA relies on the oversight of these Organizations over their principal recipients. However, closer coordination and data sharing with these entities on risk assessment issues, including other UN organizations providing TPP services, could improve the TPP customer base's risk profile.

*Root Cause*                      *Guidelines: Lack of or inadequate corporate policies or procedures.*  
    *Guidelines: Risk management practices not adequate to ensure a more efficient and proper delivery of TPP services.*

*Impact*                            *Inadequate use of risk assessment methodology and processes may expose UNFPA to high financial, reputational or legal risks.*

*Category*                         *Operational*

<b>Recommendation No. 8</b>	<b>Priority: Medium</b>
Enhance the TPP customer risk assessment by selectively incorporating an initial risk assessment during customer eligibility reviews, ensuring consistent application per SOP, and periodically updating the risk assessment model to encompass all foreseeable risks in the TPP process. Closely monitor the administration and delivery of TPP services to those entities that are not subject to any form of risk assessment.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit	
<u>Status:</u> Agree	



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### Management action plan:

SCMU agrees with the Recommendation No. 9. SCMU will balance UNFPA's TPP practice with that of comparable UN organizations offering similar TPP services so we are not too risk adverse to the point of allowing others stepping into the SRH space that may lead to women and girls receiving products that may harm them, and therefore rolling back our investment to accelerate progress to achieve the 3 Zeroes objectives.

**Estimated completion date:** September 2024

### Issue 7 Inadequate implementation and documentation of TPP control procedures

38. The audit reviewed the TPP Standard Operating Procedures and examined a sample of 20 TPP transactions involving new TPP customers onboarding, non-SRH (Sexual Reproductive Health) transactions and different funding sources to assess compliance with prescribed procedures and ensure that necessary control procedures were followed. The audit noted that the office did not maintain consistent records of each step in the procurement process, as evidenced by the examples provided.

- a) There was generally no documentation to show the process of determining whether or not a prospective customer is eligible for third-party procurement. The SOP indicates the entities that can avail of TPP services, which includes governments, NGOs, or other UN agencies. In only one case reviewed, the Country Focal Point requested documentation from the potential customer to confirm their eligibility. In other cases, the unit relied on publicly available information and evidence brought up through communications with customers without leaving a verifiable audit trail. While the audit did not reveal any instances where customers were ineligible, the lack of documented evidence of how the eligibility of new customers are vetted weakens the control process. It creates a risk of accepting a customer who is not eligible for UNFPA's TPP.
- b) The Unit did not keep documentation showing its process for determining whether a requested commodity is within UNFPA's mandate (i.e., whether the requested items are SRH supplies or those related to census-related activities that fall within UNFPA's mandate). The SOP indicates that the Country Focal Points should seek guidance from the Team Lead and Quality Assurance team if it is unclear whether a product is within the mandate. For the sample tested, the audit did not obtain any documentation related to consultations regarding whether products were within the mandate. Although the audit confirmed that all the tested transactions were associated with procuring SRH commodities or the equipment required for censuses, the lack of documented reviews and approvals creates a risk of procuring non-compliant items. Given the importance of strict compliance of the TPP transactions with the UNFPA mandate, using a control form to document the review and approval of all TPP transactions is necessary to ensure compliance with UNFPA's mandate.
- c) In cases where customers require changes to the standard clauses of legal agreements, the SOP requires consultations with the Legal Unit. The audit noted a lack of documentation and validation for legal reviews of non-standard clauses in legal agreements. Documenting clearance obtained from the Legal Unit before signing these agreements would create a reliable audit trail and show consultation and compliance with the SOP.

## AUDIT OF THE UNFPA THIRD PARTY PROCUREMENT PROCESS

39. Further, the Unit did not maintain documentation of two checklists required by the SOP. These checklists certify that the Country Focal Point has reviewed the customer's procurement request and proforma invoice and has all the necessary information before being submitted to the regional Team Lead for approval. This lack of documentation creates a risk of procuring non-compliant items. While the Country Focal Points follow up with TPP customers to obtain the needed information through email communication before the approval and processing of TPP transactions, no checklists, as described in SOP, were used to certify that this information was indeed clarified with the customer. To ensure compliance, it is crucial to implement a control form that documents the review and approval of all TPP transactions.

*Root Cause*            *Guidelines: Lack of or inadequate corporate policies or procedures. (Inadequate design of controls and inconsistent implementation of established controls could result in errors and control breakdowns.)*

*Impact*                *Inadequate documentation and control procedures within the TPP procurement process, including eligibility assessments, increase the risk of non-compliant procurement and the acceptance of ineligible customers.*

*Category*              *Operational*

<b>Recommendation No. 9</b>	<b>Priority: Medium</b>
Improve the application, consistency and documentation of control procedures as set out in the standard operating procedures for third-party procurement.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit	
<u>Status:</u> Agree	
<b>Management action plan:</b>	
SCMU agrees with the Recommendation No. 9.	
<b>Estimated completion date:</b> September 2024	

**Issue 8**    Manual control processes result in an excessive workload and increased risks of errors.

40. The audit identified multiple manual and time-consuming internal controls and processes that are in place, which could result in an occurrence of high levels of human error and inaccurate information as a basis for decision-making. For instance, the Senior Finance Associate must manually reconcile the billing, purchasing and related general ledger amounts to issue the final invoice and settle any outstanding amounts with the customer, if any. The Office indicated that the majority of orders result in outstanding amounts to be settled. Therefore, a final invoice must be issued for most proforma invoices, making this process more time-consuming and tedious. Further, credit limits and payments made by each customer that uses the deferred payment modality are manually tracked through a template, including the various memoranda of understanding, open cases (i.e., the total amount of the utilized credit limit), available balance, orders placed and the status of each customer invoice. These control activities are practically manually undertaken by only one staff, exposing SCMU to financial and reputational risks arising from decisions made based on limited or inaccurate information and inefficiencies and delays in processing customer transactions.

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41. The current IT framework cannot generate reports with complete datasets necessary to calculate key performance indicators for major customers like other UN organizations or the Global Fund. The current management reporting framework for the TPP portfolio lacks comprehensiveness as it does not have access to all of the data points to meet management reporting needs or as a basis for more informed decision-making.

42. While the audit appreciates the office’s efforts in designing and maintaining files for the manual processes mentioned above, their current complexity and vulnerability to human errors make the process time-consuming and tedious, thus affecting efficiency and accuracy.

43. As part of Phase 2 of the Quantum implementation, the SCMU and ITSO planned to review the TPP operational framework in 2024 to identify areas where automation can reduce workloads and improve the overall control environment.

*Root Cause*      *Resources: Lack of or insufficient resources (lack of technical resources and systems to automate manual processes).*

*Impact*            *Manual controls can increase the risk of human errors or may be circumvented or completely disregarded, as well as inefficiencies.*





*Category*          *Operational*

<b>Recommendation No. 10</b>	<b>Priority: High</b>
SCMU, in collaboration with the ITSO, evaluates and streamlines the end-to-end TPP process by identifying the areas that would benefit from process optimization and control automation within the new ERP system under Phase 2 of the Quantum implementation.	
<u>Manager Responsible for Implementation:</u> Chief, Supply Chain Management Unit, in coordination with the Director, Information Technology Solutions Office	
<u>Status:</u> Agree	
<p><b>Management action plan:</b></p> <p>SCMU management agrees with this recommendation and has already worked extensively to evaluate and identify system improvements both from management as well as the IT perspective. Processes will be reviewed as part of implementation of the new TPP system. Implementation is ongoing.</p> <p><b>Estimated completion date:</b> December 2024</p>	

## ANNEX I - DEFINITION OF AUDIT TERMS

### A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016<sup>9</sup>, are explained below:

<b>Satisfactory</b>		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area's objectives.</p>
<b>Partially Satisfactory with Some improvement needed</b>		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.</p>
<b>Partially Satisfactory with Major improvement needed</b>		<p>The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.</p>
<b>Unsatisfactory</b>		<p>The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could seriously compromise the achievement of the audited entity or area's objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.</p>

### B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

**Guidelines:** absence of written procedures to guide staff in performing their functions

- Lack of or inadequate corporate policies or procedures
- Lack of or inadequate Regional and/or Country Office policies or procedures
- Inadequate planning
- Inadequate risk management processes
- Inadequate management structure

**Guidance:** inadequate or lack of supervision by supervisors

<sup>9</sup> Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

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- Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
- Inadequate oversight by Headquarters

**Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:

- Lack of or insufficient resources: financial, human, or technical resources
- Inadequate training

**Human error:** un-intentional mistakes committed by staff entrusted to perform assigned functions

**Intentional:** intentional overriding of internal controls.

**Other:** factors beyond the control of UNFPA.

### C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories are used:

- **High** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
- **Medium** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority management actions, if any, are discussed by the audit team directly with the Management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

### D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic** High level goals, aligned with and supporting the entity's mission
- **Operational** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage
- **Reporting** Reliability of reporting, including fulfilling accountability obligation
- **Compliance** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions

**GLOSSARY**

<b>Acronym</b>	<b>Description</b>
<b>Atlas</b>	UNFPA's Enterprise Resource Planning system
<b>CPO</b>	Chief Procurement Officer
<b>DMS</b>	Department of Management Services
<b>ERM</b>	Enterprise Risk Management
<b>ERP</b>	Enterprise Resource Planning
<b>Global Fund</b>	The Global Fund to Fight AIDS, Tuberculosis and Malaria
<b>IT</b>	Information Technology
<b>IP</b>	Implementing Partner
<b>ITSO</b>	Information Technology and Solutions Office
<b>KPI</b>	Key Performance Indicator
<b>NGO</b>	Non-Governmental Organization
<b>OAIS</b>	Office of Audit and Investigation Services
<b>OMS</b>	Order Management System
<b>Quantum</b>	New Enterprise Resource Planning system implemented in UNFPA
<b>PI</b>	Proforma Invoice
<b>PSB</b>	Procurement Services Branch
<b>RFPI</b>	Request for Pro forma invoice
<b>RH</b>	Reproductive Health
<b>RHBF</b>	Reproductive Health Bridge Fund
<b>SCMU</b>	Supply Chain Management Unit
<b>SOP</b>	Standard Operating Procedures
<b>SRH</b>	Sexual and Reproductive Health
<b>TPP</b>	Third Party Procurement
<b>UNDP</b>	United Nations Development Programme
<b>UNFPA</b>	United Nations Population Fund
<b>USD</b>	United States Dollars