September 2024

Capacity Enhancement Verification of Partner Procurement Activities

UNHCR

pwc

PwC Kenya

- Objective
- Audit Methodology and links to PFR verification
- Eligibility of Costs
- Verification of procurement sub processes
- Verification modalities: onsite vs remote verifications
- Risks and Experience Sharing/What could go wrong

Objective

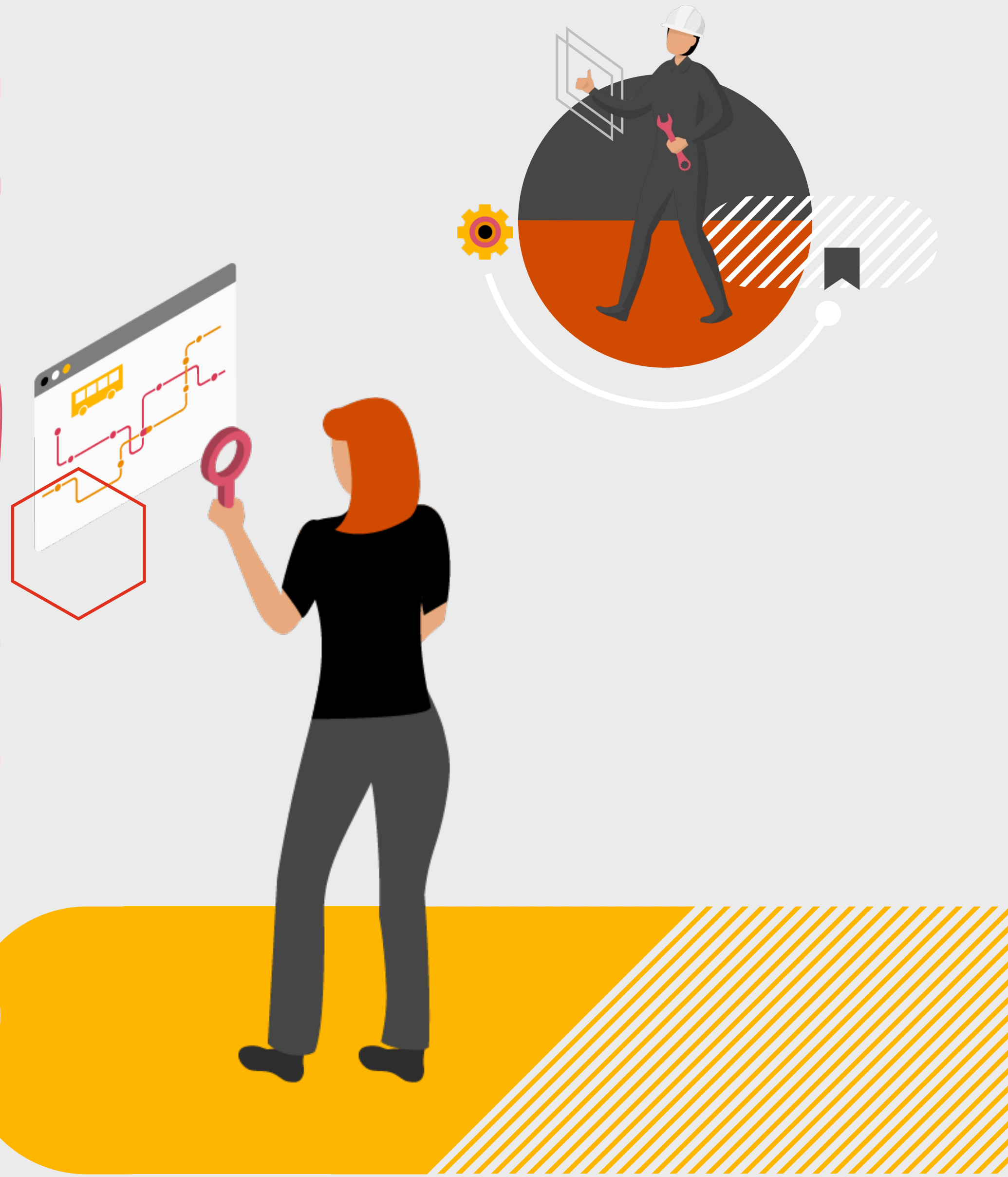
Objective

The overall objective of the webinar is to enhance the capacity of UNHCR PCOs/Supply and other MFT members and relevant funded partner personnel to increase efficiency in financial verification of procurement activities and related transactions included in PFRs.

The objective will be achieved through:

- ✓ Highlight and tips from the audit methodology and approach;
- ✓ Brief overview of eligibility of procurement costs from an audit standpoint;
- ✓ Discussion on review of procurement and related sub-processes;
- ✓ Brief overview of various procurement verification modalities; and
- ✓ Risk and experience sharing (what could go wrong in procurement).

The webinar will be undertaken through presentation and Q&A.



Audit methodology and links to PFR verifications

Audit methodology and Approach

The audit approach is based upon a simple, three-stage methodology namely:

- Assignment planning;
- Execution/detailed examination; and
- Reporting and follow-up.

This approach can be applied to UNHCR PFR Verification

Phase I: Assignment planning → **Phase II: Execution and detailed examination** → **Phase III: Reporting**

Assignment planning

- ✓ Entrance meeting with UNHCR and the specific implementing partners to outline the scope of the assignment.
- ✓ Team mobilisation.
- ✓ Obtain an understanding of the internal control environment and the organisational structure, management controls and policies in place at the partners.
- ✓ Provision of a list of documents required for the audit to enable partners and UNHCR prepare.

Execution and detailed examinations

- ✓ Conduct the audit of the project financial reports for the applicable period and confirm: Funds received, review in detail expenditure incurred and fund balance as at project audit period end dates including liquidation period.
- ✓ Reconciliation of the amounts audited and the partner's project financial reports submitted to UNHCR.
- ✓ Review and assessment of internal controls and systems.
- ✓ Compliance review – with the agreement, budget, organisation policies, and applicable laws and regulations.

Reporting

- ✓ Conduct exit meeting with the partner management and UNHCR.
- ✓ Preparation and issuance of draft reports;
- ✓ Obtain management comments on the draft reports and incorporate the comments in the reports.
- ✓ Issuance of final reports.

Audit methodology and Approach…cont'd

At each stage of the process, we tailor our audit to suit UNHCR and the implementing partners, based on our cumulative understanding of the UNHCR, UN agencies and the Not-for-Profit Sector in general.

This will enable us to focus on the risks that matter to you (UNHCR & partners).

Our firm's strategy, The New Equation, is about how PwC brings together unique combinations of people, powered by technology, galvanising ourselves as a community of solvers to address those dual challenges. Thus, our audit approach relies heavily on the use of data auditing techniques as we believe that this is the most efficient way to audit the high volume of transactions in project implementation.

To bring to you the true PwC Experience, this will be coupled with the below:

Smart People

Smart Approach

Smart Technology

Eligibility of costs

Eligibility of Costs based on PA terms

Category of Cost	*Eligibility Criteria*	*What to watch out for*
Project Expenditure (other than personnel costs and Project Support Costs/PSC)	• Costs incurred for project implementation are eligible only if incurred within the project implementation period as per Project Agreement (PA). • Liquidation period - The project liquidation period is the period during which financial commitments entered during the project implementation period may continue to be settled by the partner. Costs incurred during the liquidation period (after implementation period) are deemed ineligible. • The project expenditure must be in line with the purpose / objectives of the PA. Costs incurred outside the PA objectives are deemed ineligible. • Prefinanced expenditure • Eligibility is further determined from the underlying supporting documents • Costs charged to other donors are ineligible	• Bank reconciliations and bank statements for date of payments –period end transactions should be closely monitored. • Procurement process should be done in accordance with the partner's policy and PA terms. Relevant documents should be maintained to support achievement of economy and value for money (quotations and bid analysis, single source justifications etc.). • Ensure occurrence/delivery and maintain evidence in form of delivery notes, good received note, interim payment certificates, completion certificates, payment acknowledgements, among others. • Prior approval by UNHCR needed for prefinanced expenditure • Sufficiency of the underlying supporting documents - check for alignment with project objectives, this will include expected activities and location of the activities. (approved budget, third party support documents (invoices/receipts etc.) • Inquire about procedures to monitor financial reporting to other donors and if relevant access to those reports

Eligibility of Costs based on PPA terms

Category of Cost	*Eligibility Criteria*	*What to watch out for*
Project Support Costs /Project Indirect Costs	• Project indirect costs to be charged as specified in the PA. • The UNHCR contribution is 7% of the direct costs as per the PFRs for International Non-governmental and 4% for National Non-governmental (Governmental organizations are not eligible and for the UN specific rates are applied however the UN partners are not subject to project audit). • Any charge above 7% for INGOs or 4% for NGOs is ineligible. .	• Ensure re-computation is as per the rates specified in PA • The rates apply to Direct Costs (Direct Programme costs and Direct Shared Costs) • Ensure correct determination of the direct costs especially where there are exclusions envisaged in the PA

Eligibility of Costs based on PPA terms

Category of Cost	*Eligibility Criteria*	*What to watch out for*
Taxes	• Maximize the use of any tax exemptions available under the partner's charitable status. • In situations, where goods and services bought by the Partner may be subject to customs duty or taxation, the Partner shall indicate to the relevant authorities that the Project goods and services are bought with UNHCR funds. • The Partner shall consult with UNHCR on whether and how these payments may be exempted under the applicable international and national legal instruments. • Where the laws of the land permit tax exemptions and the partner pays taxes, the amount of taxes paid are ineligible.	• Understanding of the laws in the jurisdiction of operation. • Checking exemption status of the partner e.g. immunities and privileges based on agreement with host government for example, for Kenya some INGOs have exemptions on VAT taxes.

Eligibility of Costs based on PPA terms

Category of Cost	*Eligibility Criteria*	*What to watch out for*
Project Financial Plan (Budget) and Flexibility for budgetary line transfers	• Partners should institute controls to ensure discretionary budget line transfers of reasonable amounts remain within specified flexibility rates (as per the PA). • The transfers should not exceed 30% (for high/significant risk project) or the rate of 50% applicable for low/medium risk projects at output level. • Any overutilization above the specified rates as per the PA (i.e. 30% or 50% as per PA) is deemed ineligible **Our observations on heightened risk in budget monitoring:** ➢ Budget flexibility of up to 30% or 50% (whichever applies to specific PA) is allowed at an output level as opposed to budget/account line item – could provide room for reallocation of funds from one budget line item to another which may result in core project activities allocation being used to finance facilitative activities. If not tracked in detail this could result in reduced impact to intended beneficiaries (Refugees, displaced people, stateless and others). ➢ Significant spending on vehicle hire – some partners have significant expenses relating to vehicle hire. While these expenses are budgeted for and properly supported by relevant documents, UNHCR PCU should review whether purchase of vehicles as opposed to vehicle hire will yield more value for money. ➢ Spending on fuel and maintenance – distances covered and terrain should reasonably justify the level of spending. However, we recommend that additional monitoring activities be instituted to guarantee that value for money is received.	• Regular budget monitoring. • Budget amendments/revisions should be sought on time as soon as there is a need and not come as a surprise. • Where there are multi-donors, the appropriate monitoring allow matching the expenditures to the specific donors and avoid double dipping i.e. charging multiple donors for the same transaction/invoices, which may lead to issues of possible misconduct/fraud. **NOT ALLOWED** • Procurement by partners of core relief items (CRIs), vehicles and medicines is not allowed unless there is a specific prior written approval from UNHCR • Purchase of land and buildings (unless explicitly agreed in the funding arrangement (but a project workplan is never used as a mechanism to purchase property or land on behalf of UNHCR). • More items are defined in UNHCR Programme Handbook

Eligibility of Costs based on PPA terms

Category of Cost	*Eligibility Criteria*	*What to watch out for*
Procurement	• Partners carry out procurement in accordance with the procurement policies adopted and applicable to their organization • Partners aim to align their procurement rules, regulations, and practices with the UN and UNHCR's key procurement principles and ethical standards. • Eligibility of procurement related expenditures is further determined from the underlying supporting documents.	• Sufficient documentation to support compliance with the required procurement procedures. • Three-way matching of payments (order, invoice, delivery notes/Good received notes). • Review the registration documents of the bidders. Including ownership documents. • Ensure effective competition. • Watch for possible indicators of conflict of interests • Segregation of duties

Eligibility of Costs based on PA terms

Category of Cost	*Eligibility Criteria*	*What to watch out for*
Cash payment to daily laborers / unskilled laborers	• Maintenance of adequate support documents i.e. contracts, proof of attendance, proof of payment etc. Note: Caution should be taken where unskilled laborers include Refuges and other displaced people (POCs). In some jurisdictions, refugees are prohibited from working/earning wages.	• Maintain adequate support documents. • Regular reconciliations
Financial information not reconciled to the PFR	• The income and expenses reported should be reconciled to the underlying financial records maintained by the Implementing partners. • Variances between the PFR and the general ledgers result in reportable findings.	• Regular reconciliation of GL and financial reports
Unspent balances	Partners should refund the unspent balance as per the PA terms and as specified in UNHCR policies (Usually 31 March of the year following implementation year unless there were approved PA extensions).	• Prompt refunds after end of liquidation period

Verification of Procurement Sub Processes

Procurement

An Overview of the Procurement Sub-processes

- **Procurement planning -** enables partners to aggregate requirements into large contracts, gain economies of scale and avoid emergency procurement wherever possible. The partners can spread the procurement workload according to their resources and also undertake joint procurements when they are purchasing similar items.

- **Initiating procurement -** initiated through requisition by the user department and submitted to the procurement Unit. Attendant requisitions are then subjected to relevant approval which includes confirmation of budget availability.

- **Selecting a procurement method -** major factors to be considered include; the estimated value of the goods, works or services, the urgency, number of service providers, among others. Procurement should not be split and should be planned in order to avoid emergency procurement as far as possible. The most common methods are, single sourcing (direct procurement), low value procurement, request for quotations from a pool of pre-qualified suppliers and open tendering.

- **Invitation of tenders -** methods vary depending on the procurement method used by the partner. The tender document/request for quotation should contain enough information to allow fair competition among those who may wish to submit tenders/quotations. Further request for tender should be widely circulated.

- **Receipt of tenders -** Partners should ensure that the tender box where tenders/quotes must be submitted is open and accessible. Tender/quotes should remain unopened until the opening day. If a tender is too large to be placed in the tender box, it shall be received in the manner in the tender document. The process should be transparent and guided by the established procurement process which could vary from partner to partner.

- **Opening of tenders -** This is done by the opening Committee immediately after the deadline for submission of tenders. Each tender/quote opened will have the name of the person submitting the tender, the total price of the tender/quote and read out loud and recorded in the opening Register. Those submitting their tenders/quotes or their representative may attend the opening.

Procurement

An Overview of the Procurement Sub-processes- Continued

- **Evaluation -** the best evaluated tender is selected for award from among the tenders received. This involves the 3 stages below;

  I. **A preliminary evaluation** is undertaken soon after opening tenders to ascertain that the tender has been submitted in the correct format, has been signed by the authorized person, and that the correct number of copies, tender security (if required), validity and any required samples have been provided. Any tender that does not meet the requirements is rejected.

  II. **Technical evaluation** is then conducted on tenders that pass the preliminary evaluation for technical conformity. The technical evaluation precedes the financial evaluation. If the tender does not meet the technical requirements, it is not responsive and does not proceed to financial evaluation.

  III. **Financial evaluation** which considers prices read out at tender opening, corrections for arithmetic errors, currency, discounts etc. is undertaken. Tenders are then ranked according to their evaluated price and the successful tender is the lowest evaluated price

- **Award decision and communication -** the evaluation committee makes the award decision and communicates this to the bidders. The communication should be made both to the successful and the unsuccessful bidders.

- **Creation of contract-** the successful bidder and the partner enter into a written contract and/or an LPO/LSO issued to the supplier.

- **Contract management –** the contract has to be managed to ensure that the supplier/service provider performs in accordance with the terms and conditions of the contract and the provider meets all its obligations under the contract. Depending on the partner’s policies, this could be the function of the user department or the procurement department/committee.
- **Inspection and acceptance of goods, works or services-** this is to ensure that the correct quantity is received, and the technical standards have been met. After the verification, payment can then be made.

Financial verification modalities: onsite vs remote verifications

Procurement

Verification modalities

Verification of procurement documents should be done at IP premises. Further site visits should be physical if its effective and practical.

Where not possible to travel to conduct onsite reviews, remote reviews are also an option. Below are some of the procedures conducted in order to get comfort over the soft copies reviewed:

I. ***Independent verification with third parties –***Independently confirming information with third parties through phone calls to suppliers, beneficiaries etc.

II. ***Completeness and accuracy*** – Performing completeness and accuracy tests (substantive and/or controls testing) on system generated information.

III. ***Verification of source –***Verifying information received by e-mail or through other information sharing platforms to confirm that it was sent by the intended source by communicating directly with the sender to validate the source and details of the information sent including contacting them on phone.

IV. ***Additional procedures to verify reliability –***performing additional procedures to verify the reliability of documents received from IPs e.g. on a sample basis, comparing scanned documents with the originals on a sample basis.

Note: Technology can be adopted to physically verify physical outputs e.g. constructions vis GPS.

Risks and Experience Sharing/What could go wrong

Procurement

Area of focus	*Risk*	*IPs Requirement*
Procurement	There is a risk that the procurement of goods and services under the partnership agreement is non-compliant with the requirements of UNHCR and partner or does not follow the procurement principles of fairness, transparency, effective competition, value for money, client centricity among others including bid solicitation, handling and receipt of bids, technical and financial evaluations, contract and vendor management, conflict of interest in line with the procurement samples selected for verification This can be through: • Lack of robust procurement policies at partner's level; • Non-alignment of partner's procurement policy to UNHCR project partnership agreements; • Non-adherence to stipulated procurement procedures; and • Failure to conduct due diligence on awarded suppliers	For partners, they are required to at a minimum to: • Have a robust procurement policy which details, the procurement cycle from procurement to payment, detailed threshold and the process to be followed under each, segregation of duties in the process among others. • Conduct due diligence on the suppliers to be engaged. These include searches for debarred/sanctioned suppliers by the various development partners • Engage with established suppliers with verifiable presence • Document the rationale for award of the bids/tenders to the winners. The partner to communicate with both the successful and the unsuccessful bidders. • Retain the documents to evidence competitive process. These include, request for quotation, open tender advertisements, bids, bid analysis, procurement committee minutes, letters of award to the successful bidder and letter of regret to unsuccessful bidders, contract/LPO/LSO among others.

Procurement

Area of focus	*Common findings*	*Common Findings*
Procurement	• Lack of a robust procurement policy. • Failure to conduct due diligence on suppliers before engagement. • Engagement with non-established suppliers with no verifiable registration information. • Failure to consider technical evaluation in the procurement process. • Un-updated list of pre-qualified suppliers • Single sourcing with no documented justification • Procuring items not budgeted for	• Common control/directorship of bidders participating on the same bid • Bid splitting with the aim of avoiding a robust procurement process • Procurement thresholds not representative of the local operating environment. This is especially for local offices that adopt the thresholds from the HQ, which has a different operating environment. • Illogical sequencing of procurement documents/events. For example, a contract signed with a given supplier prior to the bid analysis • Bid analysis not signed off by the evaluation committee • Allowing bidders missing mandatory requirements such as registration certificates, business permits etc. to proceed for technical and financial evaluations. • Requesting for quotations from suppliers not in the pre-qualified list.

The End.

Questions?