

Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Audit of procurement and contract management at ICTY**

**Overall results relating to the efficient and effective procurement and contract management at ICTY were initially assessed as partially satisfactory.**

**Management has satisfactorily implemented the audit recommendation.**

**FINAL OVERALL RATING: SATISFACTORY**

**30 August 2012**

**Assignment No. AA2012/270/01**

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# AUDIT REPORT

## Audit of procurement and contract management at ICTY

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement and contract management at the International Criminal Tribunal for the former Yugoslavia (ICTY or Tribunal).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. Between January 2010 and January 2012, ICTY expended approximately \$56 million procuring goods and services. In doing this, ICTY awarded 89 new contracts, valued at \$47.6 million; 84 contract extensions valued at \$19.3 million; and 10 contract modifications, valued at \$0.2 million. The value of contracts exceeds the total expenditure because some of these contracts relate to expenditure in later periods.
4. Comments provided by ICTY are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of ICTY's governance, risk management and control processes in providing reasonable assurance regarding the **efficient and effective procurement and contract management**.
6. The audit was included in IAD's work plan for 2012 as a result of the risk assessment conducted by IAD where procurement and contract management was rated as one of the high risk areas.
7. The key controls tested for the audit were: (a) governance framework; (b) regulatory framework; and (c) performance monitoring and reporting. For the purpose of this audit, OIOS defined these key controls as follows:
  - (a) **Governance framework** – controls in relation to the level of organizational structure, mandates, delegation of authority, and control environment that provide reasonable assurance that procurement and contract management activities are implemented efficiently and effectively.
  - (b) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of procurement and contract management activities; (ii) are implemented consistently; and (iii) ensure financial and operational information is reliable and produced with integrity.
  - (c) **Performance monitoring and reporting** – controls that provide reasonable assurance that metrics are: (i) established and appropriate to enable measurement of the efficiency and effectiveness of operations; (ii) prepared in compliance with rules and are properly reported on; and (iii) used to manage operations appropriately.
8. The key controls were assessed for the control objectives shown in Table 1.

9. OIOS conducted this audit from 9 February 2012 to 1 June 2012. The audit covered the period from January 2010 to January 2012.

10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

11. ICTY's governance, risk management and control processes examined were assessed as **satisfactory** in providing reasonable assurance regarding the **efficiency and effectiveness of procurement and contract management at ICTY**. OIOS made one recommendation to address the issue relating to the regulatory framework, particularly on vendor registration and the Local Vendor Review Committee, which ICTY had satisfactorily implemented. As regards the two other key controls covered by this audit: (a) ICTY implemented an adequate governance framework which included the organizational structure, appropriate delegation of procurement authority, establishment of a Local Contracts Committee, clear mandate and mission, a focus on the control environment, and a commitment to ethical and professional behavior; and (b) on performance monitoring and reporting, ICTY's Procurement Section submits monthly activity reports to the Chief Administrative Officer showing the procurement activity in relation to the number of Requisitions, Purchase Orders, Contracts, Invoices, methods of solicitation used and submissions to the Local and Headquarters Committees on Contracts.

12. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **satisfactory** as the recommendation has been implemented satisfactorily.

**Table 1: Assessment of key controls**

Business objective(s)	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Efficient and effective procurement and contract management at ICTY	Governance framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	Regulatory framework	Partially Satisfactory	Partially Satisfactory	Partially Satisfactory	Partially Satisfactory
	Performance monitoring and reporting	Satisfactory	Satisfactory	Satisfactory	Satisfactory
<b>FINAL OVERALL RATING: SATISFACTORY</b>					

#### A. Regulatory framework

##### Compliance with vendor registration and management procedures

13. The United Nations Procurement Manual defines the criteria for vendor registration including basic vendor registration information and additional documentation, depending on the level of contractual

value per transaction that the vendor contemplates to undertake with the United Nations. Standard registration forms are required to be submitted by the vendors duly dated and signed by the company designated representative, in order to ascertain its authenticity.

14. The Vendor Registration Application (VRA) requirements were not fully complied with in five out of a sample of 27 cases (or 19 per cent). Incomplete VRA information does not allow for an adequate assessment of the vendor and does not enable the vendor to participate in United Nations procurement of goods and/or services for which it is registered.

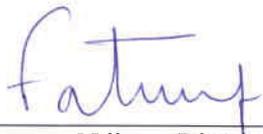
15. The Procurement Manual also requires that Offices away from Headquarters establish a Local Vendor Review Committee (LVRC) with the responsibility for reviewing applications to the vendors' register, complaints from requisitioners and/or other United Nations staff against vendors, proposals for special approval of vendors recommended by a Procurement Section and proposals to suspend or remove vendors from the vendors' register. ICTY established a LVRC in 2008, but its membership has been allowed to become outdated as most of its members have left ICTY or changed functions inside the Tribunal. As a result, ICTY does not currently have a fully functional LVRC to carry out the functions it was established for. This has contributed to noncompliance with vendor registration application requirements and also increased the risk of not being able to deal with vendor-related complaints in accordance with the Procurement Manual.

**(1) ICTY should ensure that required procedures with regard to vendor registration and management are followed, including updating its Local Vendor Review Committee, following due diligence process for non-compliance with contract terms or poor performance by vendors, and ensuring completeness of Vendor Registration Applications.**

*ICTY accepted recommendation 1 and stated that Procurement Section had finalized an Internal Memorandum updating the LVRC composition and the Terms of Reference to govern the functioning of this Committee. Both documents were approved and promulgated by the Chief Administrative Officer on 8 August 2012. ICTY also advised that its Procurement Section would continue following up with the ICTY local vendors to ensure their compliance with vendor registration requirements. Based on the action taken by ICTY, recommendation 1 has been closed.*

#### IV. ACKNOWLEDGEMENT

16. OIOS wishes to express its appreciation to the Management and staff of ICTY for the assistance and cooperation extended to the auditors during this assignment.



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