



INTERNAL AUDIT AND INVESTIGATIONS GROUP

# UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

## MANAGEMENT LETTER

15 June 2016

<b>PROJECT NAME:</b>	<b>STRENGTHENING HEALTH SECTOR PUBLIC PROCUREMENT AND SUPPLY CHAIN MANAGEMENT CAPACITIES PHASE II AND PHASE III</b>
<b>PROJECT NUMBER:</b>	<b>00086188</b>
<b>COUNTRY:</b>	<b>MALDIVES</b>
<b>AUDITOR:</b>	<b>PRICEWATERHOUSECOOPERS</b>
<b>PERIOD SUBJECT TO AUDIT:</b>	<b>15 APRIL 2013 TO 31 DECEMBER 2014</b>

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***Strengthening Health  
Sector Public  
Procurement and Supply  
Chain Management  
Capacities Phase II and  
Phase III  
- UNOPS***

**Strictly Private and  
Confidential [DC2]**

Management Letter - Audit of  
statement of income and  
expenditure for the period  
from 15 April 2013 to 31  
December 2014





JB/LOT/107/16  
25 May 2016

Strictly Private and Confidential

Ms Francoise Jacob  
Director & Representative – SAOH  
United Nations Office for Project Services,  
118/5, Nawala Road,  
Colombo 05, Sri Lanka

Dear Ms Francoise Jacob

***Management letter - Statement of cash receipts and disbursements of the project 'Strengthening Health Sector Public Procurement and Supply Chain Management Capacities Phase II and Phase III' for the period from 15 April 2013 to 31 December 2014***

We completed the audit of statement of cash receipts and disbursements of the project 'Strengthening Health Sector Public Procurement and Supply Chain Management Capacities Phase II and Phase III' for the period from 15 April 2013 to 31 December 2014. The nature and the scope of the audit, our responsibilities as Auditors together with your responsibilities as Management, were set out in the agreement LKOH/MAL/59033/REQ-15-0043, which was sent to you on 29 November 2015.

Our audit work focused on the review of only systems and controls of the project 'Strengthening Health Sector Public Procurement and Supply Chain Management Capacities Phase II and Phase III' upon which we wished to rely for the purpose of determining our auditing procedures. Accordingly, our examination may not have identified all control weaknesses that may exist. Furthermore, our work was not primarily designed to detect fraud or other irregularities, although their discovery may result from our audit work.

The maintenance of an adequate system of internal control is the responsibility of management. We appreciate that management performs a cost benefit analysis before our recommendations are implemented as the cost of implementing may exceed the risk and reward expectations of the project 'Strengthening Health Sector Public Procurement and Supply Chain Management Capacities'.

Should you require any further clarification on any of the matters set out in this report, please do not hesitate to contact the Engagement Partner Mr. Jatindra Bhatray, on telephone number +960 3336046.

Finally, we wish to place on record our appreciation of the assistance rendered to us by the staff of United Nations Office for Project Services.

Yours truly

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## *Accounting, operational and control issues*

### *Non-compliance with the procurement procedure*

#### *Observation*

101 In accordance with the procurement manual, purchases between US\$ 5,000 and US\$ 50,000 require following the request for quotation (RFQ) procedure, where at least three suppliers are invited to submit quotations. However, we noted two instances where RFQ procedures had not been followed and no evidence is available that the [REDACTED] had invited at least three suppliers for quotation to said procurements. Further, the evaluation reports were also not available to confirm the basis of supplier selection and reasonability of the price paid. Refer the table below.

Date	Description	Voucher no	Amount (US\$)
25/11/2014	Deferral injections - medical supplies	1084608	30,587
25/11/2014	Medical supplies - T test cards	1084598	7,202
			37,789

Also, we have noted that the UNOPS had obtained post facto approval for the above purchases as exception to a formal method of solicitation pursuant to FRR 118.05(a)-(ii) subject to suppliers' UNGM registration. Further, LCPC recommended the importance of avoiding post facto cases and compliance with the FRR and established procurement procedures.

102 The project purchased laboratory equipment amounting to US\$ 13,218 thorough direct contracting. Direct contracting refers to engaging a supplier or contractor to supply goods, services or works without competition. With respect to the direct contracting, procurement manual revision 5 section 8.8.2 states that "The offer must be evaluated according to established criteria for evaluation, i.e. in the same manner as a competitive selection process". However, no comprehensive evaluation report was available to assess whether the offer is an acceptable quality at a justifiable price.

#### *Implication*

103 Procurements made without following the laid down procedure have the following potential implications:

- There is no assurance that the lowest price was paid for goods or services purchased;
- The risk of collusion between staff and suppliers increase; and
- Financial loss may occur as a result of quality services not being obtained at the best price.

## Recommendation

104 Procurement practices laid down should be consistently followed to avoid exceptions which, involve post facto approval.

## Management comments

- *Voucher No. 1084608 and 1084598* - [REDACTED] has initially requested quotations from the suppliers. Based on a single quotation received at the time, UNOPS asked the supplier to deliver goods via letter. This was an urgent request made by [REDACTED] at the time, as the products were critically required by Maldives Blood Services. The invoice was later then forwarded to UNOPS for payment. Goods receipt was acknowledged by Maldives Blood Services, on the delivery note with their rubber stamp. However, in accordance with the guidelines given in the procurement manual we have submitted the cases to LCPC as post facto and the panel has reviewed and approved the procurement process. LCPC meeting items 2 of 6, Case# 14164-2135 and item 3 of 6, Case# 14165-2136. Hence, the process is in line with the provisions given in Procurement Manual.
- *Voucher No. 859043* - The exception procedures specified in the Procurement manual Rev 4 (Clause 4.4) has been used for evaluation and award. Request for award explained the background of the selection. The amount paid in this case is MVR 13,219. This is in line with the procurement manual.
- *Voucher No. 1084608 and 1084598* - The very fact that these cases were accorded exceptional approval by the LCPC means that the conditions to invoke exception grounds under FRR 118.05(a)(11) have been met. The LCPC award also clearly appreciates the circumstances under which a proper evaluation report was not available under this case. The award also clearly states LCPC is satisfied that the reasonableness of costs has been clearly demonstrated  
LCPC recommended to process the payment subject to supplier's UNGM registration. This is the only condition imposed by LCPC for the activation of the award. Both suppliers were registered in the UNGM and UNGM registration Numbers are as follows;  
[REDACTED]  
[REDACTED]
- *Voucher No. 859043* - The award clearly states that the supplier was the only authorized dealer for the items and that the supplier was identified by the [REDACTED]. The award clearly mentions that in a single source environment reasonableness of prices cannot be established as comparable prices are not available.

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*PWC comments*

*Voucher No 1084608 and 1084598*

- *No evidence was available to substantiate whether the [REDACTED] had invited at least three supplier quotations for the said procurements.*
- *Also we would like to emphasis on the recommendation made by the LCPC highlighting the importance of avoiding post facto cases and compliance with the FRR and established procurement procedures.*

*Voucher No 859043*

- *In accordance with section 8.8.3 of the procurement manual revision 5, “A financial evaluation shall be undertaken in order to establish reasonableness of prices quoted in an offer in any situation where only one or two offers have been or when competition has been limited. A number of criteria can be used to determine whether or not the price is fair and reasonable, such as:*
  - *Comparison with market price (i.e. prices offered by other suppliers of the same or similar product or service)*
  - *Comparison with catalogue or list price*
  - *Comparison with valid LTA prices*
  - *Historical price, i.e. compare the current price to a price paid in the recent past for the same or a similar product*
  - *Whether the offer is similar to that for another comparable customer*
  - *If the offer is custom-built, whether the cost breakdown of the offer shows that the price is fair and reasonable*

*If, after price/cost analysis, the financial evaluation team does not consider the price to be fair and reasonable, UNOPS shall seek competition or negotiate with the supplier in an attempt to lower the price.*

*However, no such comprehensive evaluation was performed by using above criteria to assess whether the offer is an acceptable quality at a justifiable price.*

## ***Absence of minimum three quotations and short solicitation period***

### ***Observation***

105 Procurement manual suggested that the minimum solicitation period of 5 calendar days should be provided for request for quotation and 15-21 calendar days should be provided for invitation to bid (ITB). However, during the course of our audit, we noted that due to unavailability of minimum solicitation period the UNOPS could not obtain minimum three supplier quotations to evaluate and select the potential supplier. Upon inquiry, we were informed that it was mainly due to emergency requirements from the Ministry of Health. However, no written request from the Ministry of Health was available to justify the emergency. Please refer **Annexure-1**.

### ***Implication***

106 Absence of the minimum number of quotations and the minimum length of the solicitation period indicates that efficient and effective procurement planning was not undertaken.

### ***Recommendation***

107 Exceptions to the procurement procedure should only be made in rare circumstances. Further, effective procurement planning should be undertaken, taking into account the requirements for the product, based upon order lead time and reorder levels.

### ***Management comments***

*UNOPS Procurement Manual Rev. 5 under section 6.3.1.2 (Rev. 4 section 4.1.2) states that when using RFQ, at least three suppliers must be invited to submit a quotation. Furthermore, it also states that should it not be possible to obtain three quotations, the reason must be recorded in writing and signed by the Procurement Authority. As pointed out, the minimum solicitation period is defined in the procurement manual. However, according to section 6.6.4 (b) "If due cause exists, the PA can authorize a shorter solicitation period" and a Note to the File documenting the justification for such cases should be filed accordingly. In the context of the project, the project had received numerous requirements for urgent purchase of critical items required by the health sector. Out of the cases identified under Annexure-1 of this letter, we would like to highlight the following:*

- *Voucher 1045122 – The procurement case was reviewed by LCPC. LCPC documented the reason for shorter solicitation time period and approved the award.*
- *Annex 1 - Absence of minimum three quotations and short solicitation period: UNOPS have followed the relevant and required procurement procedures in all cases. In cases where the shorter tender period is applied, all cases have been supported with a Note to the File, justifying the decisions made on each case.*



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Voucher No: 923367, 941493 and 950915

*These procurement cases were covered by under Procurement Manual revision 4. Note to File (NTF) justifying a shorter solicitation period is attached and RFQ was launched with 5 calendar days as per the approved solicitation documents. In the subsequent procurement manual Rev 5, for RFQs minimum time period of 5 days is given for these cases.*

*According to section 5.1.1.1 (b) "If due cause exists, the PA can authorize a shorter solicitation period" and a Note to the File documenting the justification for such cases should be filed accordingly. The above cases are compliant to the procurement manual.*

*Despite efficient procurement planning, it is not possible to always anticipate emergency requirements, especially in the health sector. As a procurement agent it was over mandate to ensure availability of materials requested by our clients and we did our best to do so within the framework of UNOPS Procurement Manual and related regulations.*

*It is not necessary to receive a written request from the Ministry of health to justify a shorter solicitation time period either under the terms of the MOU with the Ministry of Health or under UNOPS Procurement Guidelines.*

*In the cases where less than three offers have received, following the section 7 (Rev 4) /section 8.8.3 (Rev5) of manual, reasonableness of cost has justified to show the best value for money. Therefore absence of minimum three quotations had not affected to the efficiency, effectiveness and value for money of the procurement process.*

### **PWC comments**

*Voucher No 1045122*

*No evidence was available to substantiate the urgency. Further, post facto approval of LCPC is involved only in exception to the normal practice.*

*Voucher No 923367, 941493 and 950915*

*No written evidence from the Ministry or valid justification stated in the NTF for the short solicitation period to evidence the urgency. In all of the above instances NTF stated as "The above mentioned RFQ for supply of Iron Chelating Agents are critical products needed for Thalassaemia patients at Maldivian Blood Service", and the following reasons were mentioned to support for the shortened RFQ floating period.*

- *This requisition consist only 3 products which will not require more time for suppliers to prepare proposals*
- *From the past experience it is known that only few vendors' ore engaged in supplying these specialized products. Therefore floating this RFQ for more days will not get any competitive.*

*Accordingly we believed that neither valid justification stated in the NTF to support short solicitation period nor written request from the Ministry of Health is available to confirm the critical requirement.*

*Reasonability of prices paid could not be checked.*

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*Annexure-1*

*Absence of minimum three quotations and short solicitation period*

Date	Description	Supplier name	Amount (USD)	Voucher no	No of quotations / bids	Procurement procedure	Tender period	Suggested tender period	Remarks
3/9/2014	Purchase of medical equipment	[REDACTED]	12,105	1045122	2	RFQ	1 day	5 days	No request from the Ministry of Health is available to confirm the critical requirement of medical supplies.
12/4/2013	Other essential drugs	[REDACTED]	36,232	923367	2	RFQ	4 days	5 days	
1/16/2014	Other essential drugs	[REDACTED]	30,200	941493	2	RFQ	4 days	5 days	
2/10/2014	Other essential drugs	[REDACTED]	9,703	950915	2	RFQ	4 days	5 days	

88,240