

# audit of provident fund procurement of investment managers

## results summary

department of internal oversight services

### Background

The Provident Fund (PF) was established in 1955 under article XIII of the Agency's Financial Regulations and is mandatory for the area staff members. Per Area Staff Rule 109.10, staff contributes 7.6 percent of their basic salary, which is matched by the Agency's contribution of 15.2 percent.

The investment assets of PF, approximately \$1.62 billion and \$1.78 billion in 2019 and 2020, respectively, are managed through specialized Investment Managers (IMs) on behalf of PF. The Provident Fund Secretariat (PFS) monitors the PF activities and assists in administering the PF. Organizational Directive #28 (OD28), effective 1 January 2017, provides guidelines on the management of the PF. Annex 1 to the OD28 provides procedures for procurement and appointing IMs, including the roles of IAC and PFC.

### Objective and purpose

The audit assessed the adequacy and effectiveness of governance, risk management and control processes of procurement for IM services, and compliance with Organizational Directive 28 Provident Fund: Annex-1 Hiring New Investment Managers (the Annex).

### What DIOS concluded

The procurement for investment management services is governed by the Annex, which contains specific screening criteria for the selection of IMs depending on the asset class. This framework refers to the specific nature and complexity of procurement of investment services. Yet, the framework required significant reflection of

the principles of procurement as stipulated in UNRWA procurement rules and regulations and best practices.

*Procedures in the Annex can benefit from alignment with the standard UNRWA procurement process and best practices across the UN for similar services.*

The subprocesses from Annex and UNRWA Procurement Manual (PM) significantly differ in the detailed guidance provided. PFS has thus far been unable to assess best practices to leverage off how for example, the UNJSPF procures its investment services.

*Procurement duties in practice within PFS fall under one individual, whereas the framework can benefit from enhancing segregation of duties as provided for in the PF structure.*

The Chief of PFS conducts research and screening for procuring IM services, acknowledging his responsibilities as the task of hiring new IMs is assigned to him. There is no segregation of roles during the identification, solicitation, and evaluation of potential IM before the decision by the Investment Advisory Committee and Provident Fund Committee.

*There is a need to establish the procurement strategy and planning process.*

Procurement is initiated upon the need to terminate IM (due to poor performance), and there is no procurement-specific plan indicating the time required for the process, including the contracting. Time required from decision-making to contracting can be lengthy as well.

*There was insufficient guidance for proper sourcing.*

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The research/sourcing was conducted using multiple sources; however, the utilization of prescribed criteria was undocumented.

*The screening/evaluation process needed enhancement.*

Screening criteria were developed, but its utilization to arrive at the shortlist presented to the IAC for selection is undocumented. Deadline extension and additional information were not shared with all participating bidders, and there was no procedure in the framework for communication and bid opening to ensure all bidders are treated in a fair and non-discriminatory manner.

*The final selection of IM is documented, while written confirmation of no conflict of interest could be beneficial.*

The IAC's deliberation to arrive at a recommendation of selected IM is minuted, focusing on the presentations given. UNRWA PM required written confirmation by evaluation committees (to confirm no conflict of interest), whereas the requirement for IACs objectivity is embedded in their overall requirement in OD28.

*The record-keeping and filing system needed improvement.*

The Annex does not contain a standard requirement to establish a procurement file, to maintain all relevant information, including correspondence with potential IMs, while UNRWA good practice is included in the PM.

*There is a need to develop guidelines for contract awards, fee negotiation and define contractual instruments.*

PFS was able to negotiate a reduction of fees despite the lack of specific guidelines. Contracts are open-ended, to suit per PFS the specific circumstances, which may not be in

line with best practice within UNRWA to have finite period (renewable) contracts.

### What DIOS recommends

*DIOS made seven recommendations of which three are high risk (Recommendation #1, #2 & #5):*

- 1 Finance Department should enhance the Provident Fund procurement framework by incorporating the procurement principles as set out in OD 10, UNRWA PM, and best practices, as relevant.
- 2 Finance Department should ensure that the segregation of responsibilities is adequately established within PFS for the procurement process (including screening/research, selection) to ensure its fairness, integrity, and transparency.
- 3 Finance Department should ensure that PFS prepares an operational procurement plan defining the requirements of the activity to guide the procurement process for each IM and to shorten the time between needs identification and contracting to effect more efficient procurement.
- 4 Finance Department should include appropriate guidance in the Annex on the sourcing process to enhance the clarity and compliance
- 5 Finance Department should ensure that the evaluation of bidders is properly conducted and documented in accordance with evaluation criteria established to identify the proposal offering the greatest overall benefit in response to the requirements described in the solicitation documents. In addition, Finance Department should strengthen the solicitation process, including implementing guidelines for communication with potential bidders and proposal procedures, reflecting the principles of procurement.

6 Finance Department should take appropriate steps to enhance the documentation requirement to record and retain all procurement action.

7 Finance Department should enhance the Annex to include guidance on contract management, including contract award and issuance and contractual instruments.

DIOS also provided management with opportunities to improve, including formalizing a roster and confirming no conflict of interest for the selection committee.

## What management is doing to address DIOS recommendations

Management accepted the recommendations and shall, after due assessment of the UNRWA PM and OD10, enhance the Annex to duly reflect and incorporate the principles of procurement into the Annex and strengthen the procurement process, including preparing an operational procurement plan, enhanced sourcing and evaluation of bidders, and appropriate documentation for procurement actions.

### Methodology, Approach and Disclosure

DIOS assessed the adequacy and effectiveness of governance, risk management and control processes of procurement for IM services and compliance with the procurement relevant rules and regulations OD28: Annex-1 for 2017-2019.

The approach included enquiries and interviews with the Chief Provident Fund Secretariat (CPFS), discussion with relevant staff in the Central Support Services Division (CSSD), review of relevant documents, testing the procurement process on a sample basis, analysis of data obtained, and other procedures deemed necessary.

The audit was conducted in accordance with DIOS standards, which are designed to conform to the International Standards for the Professional Practice of Internal Auditing and took into consideration the risk assessment exercise conducted prior to the audit.

Pursuant to OD14, this summary of internal audit findings and recommendations including management action taken to address recommendations is made publicly available on the DIOS internet page upon issuance of the audit report (on 9 May 2021).