

INTERNAL AUDIT REPORT

Supplier Selection & Contract Management
December 2019



Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board on the design and effectiveness of the controls in the key processes related to procurement (including procurement planning, supplier sourcing, selection and contract management).

The procurement team is responsible for supporting the organisation to obtain the best value for money for goods and services through the application and implementation of the Procurement Policy and Regulations in all appropriate situations.

Following approval of the new procurement strategy in March 2019, the procurement team is undertaking a number of initiatives to align with best practice and position the organisation as a leader in the use of robust, fit-for-purpose and innovative procurement systems.

Through our audit procedures, we have identified medium risk issues relating to: procurement planning; oversight of procurement activities; contract performance management and supplier performance evaluation; and management of exceptions to competition.

Key Internal Audit Issue Summary

Issue Description	Rating Ref
Procurement Planning	
There is need to implement procurement planning	M
Oversight	
There is need to strengthen oversight of procurement activities	M
Contract Management & Supplier Performance Evaluation	
There is need to enhance the process of managing exceptions to competition (i.e. single-sourcing)	M
Contract Management & Supplier Performance Evaluation	
There is need to enhance the process of contract performance management and supplier evaluation	M

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Summary of Findings

Summary of Issues Arising

Our audit identified seven medium-rated and two low-rated audit issues. A summary of the significant issues identified along with the agreed management actions is provided below:

There is need to implement procurement planning

Formulation and development of procurement plans is a good practice which involves identifying and consolidating requirements and determining the timeframes for their procurement with the aim of having them as and when they are required. The objective is to obtain value for money, reduce procurement costs, enhance transparency and predictability.

Through our audit procedures, we observed that the procurement approach was reactive and mainly transaction-based until March 2019 when a new procurement strategy was approved by senior management. The plan was to roll out the Gavi annual consolidated procurement plan by 30 June 2019. However, as at the time of the audit, formulation and development of the consolidated plan was only partially done at ~33%. This process needs to be expedited to realise the benefits of procurement planning.

There is need to strengthen oversight of procurement activities

According to good procurement practice, the organisation should establish a committee to oversee the procurement activity within the organisation. The role of procurement committee (PC) is to: provide strategic direction; oversee high risk procurement activities; oversee the process of supplier performance; and ensure process standardisation. An effective procurement committee ensures proportionality, transparency, accountability and fairness in the procurement process. In addition, a PC ensures all necessary procurement procedures are properly followed. Gavi does not have a formal procurement committee with clear terms of reference.

The plan was to have a procurement review committee in place by 31 July 2019. At the time of the audit, the procurement team was in the process of developing the concept note. Minimal progress had been made in rolling out the other activities related to setting up the committee.

There is need to enhance the process of managing exceptions to competition (i.e. single-sourcing)

The procurement team is responsible for supporting the organisation to obtain the best value for money for goods and services through the application and implementation of the procurement policy and regulations in all appropriate situations.

According to Gavi Procurement regulation clause 4.4, (exceptions to competition - Single Source Sourcing), the head of procurement is expected to assess and request further clarification on justifications provided and escalate the situation to the Business Owner and Director of Operations, if necessary.

Through our audit procedures, we observed that the explanations and justifications for most single-sourced awards under the circumstances of compelling urgency do not clearly demonstrate this and may be due to lack of proper planning on the part of the requesters.

There is need to enhance the process of contract performance management and supplier evaluation

Through our audit procedures, we were unable to evidence how the performance of some of the suppliers and consultants was assessed/evaluated. In addition, the deliverables were not defined in one of the cases.

We also noted that data on contract performance is not collected in a consistent manner to aid in both the operational/day to day and strategic decision making. This may be attributed to the fact

Summary of Findings

that the tools and systems for contract monitoring and performance management are not optimal.

Audit Objective

Our audit assessed the design and operating effectiveness of the key controls in the processes related to procurement (including procurement planning, supplier sourcing, selection and contract management).

Audit Scope and Approach

We adopted a risk-based audit approach informed by our understanding of GAVI's business, governance, risk management processes and internal control systems as well as our assessment of the risks associated with the audit area. The audit process involved carrying out interviews, reviewing relevant policies and guidelines, process walkthroughs, and reviewing on a sample basis, evidence relating to procurement activity carried out in the period from January 2016 to December 2018.

This audit was designed to assess the:

- Design and operating effectiveness of the key controls;
- Economy and efficiency of the utilisation of resources;
- Quality of implemented governance and risk management practices;
- Compliance with relevant policies, procedures, laws, regulations and donor agreements.

The following key areas were reviewed:

- Procurement planning and strategy;
- Oversight of the procurement process;
- Identification of requirements and pre-sourcing;
- Supplier sourcing (including due diligence), analysis and selection;
- Contract negotiation and approval;
- Delivery of goods and services;
- Contract performance management, evaluation and reporting;
- Contract termination and renewal; and

- Procurement policy and regulations (including tools for managing the related procurement processes).

Background

The mission of the procurement activity is to create and manage professional procurement capability to deliver quality, cost effective, consistent products and services to GAVI's customers.

The main goals of the function are:

- To develop and execute clear and prioritised programmes that enable and support the organisations objectives through maximising the cost efficiency, thus increasing Gavi's ability to deliver on its mission and goals;
- To embed the GAVI procurement capability and support major business change programmes; and
- To develop agreed supplier and service target models.

Following the recruitment of the new head of procurement in quarter 4, 2018, the function conducted a stakeholders' satisfaction survey in order to identify the key areas of focus. The following initiatives were underway at the time of the audit:

- Excellent service to stakeholders
 - Improving templates, guidelines and usage of e-tools
 - Strengthening involvement in the Partners engagement framework (PEF) process
 - Procurement training for stakeholders to increase awareness and understanding of the procurement process
 - Enhancing use of data analytics and reporting (SAP Analytics) to support data-driven decision making
- Improve value for money
 - Strengthening procurement planning (i.e. to reduce After-The-Fact procurement)
 - Strengthening and streamlining tendering process (i.e. to reduce single-sourcing)

Summary of Findings

- Strengthening contract and performance management
- Strengthen governance and decision-making
 - Strengthening policy and regulations
 - Streamlining delegation of authority
 - Establishing the procurement review committee

We will continue to work with management to ensure that these audit issues are adequately addressed and required actions undertaken.

We take this opportunity to thank all the teams involved in this audit for their on-going assistance.

Head, Internal Audit

Appendix 1: Previously identified findings in implementation

The following findings which were identified during the execution of this audit were reported in previous audits and are in implementation:

Risk Rating	Issue Title	Report Title
Medium	The document management system in the procurement process is weak.	PCA; Outsourced Accounts Payable
Medium	There is need to implement a process to ensure compliance with the conflict of interest rules.	PCA; Outsourced Accounts Payable
Medium	The evaluation of the financial and technical proposals needs to be separated	PCA; Outsourced Accounts Payable
Medium-High	The due diligence process of service providers/contractors/Expanded Partners needs to be enhanced.	PCA; Expanded Partners; Outsourced Accounts Payable
Medium	There is need to ensure that subject matter experts are included in the selection team in accordance with the Gavi Procurement Regulations (clauses 4.6).	PCA
Medium	The process of evaluating the overall performance of suppliers/contractors needs to be defined and done	PCA; Expanded Partners

Appendix 3: Summary of Performance Ratings and Distribution List

Summary Performance Ratings on Areas Reviewed

For ease of follow up and to enable management to focus effectively in addressing the issues in our report, we have classified the issues arising from our review in order of significance: High, Medium and Low. In ranking the issues between 'High', 'Medium' and 'Low', we have considered the relative importance of each matter, taken in the context of both quantitative and qualitative factors, such as the relative magnitude and the nature and effect on the subject matter. This is in accordance with the Committee of Sponsoring Organisations of the Treadway Committee (COSO) guidance and the Institute of Internal Auditors standards.

Rating	Implication
High	Address a fundamental control weakness in relation to internal controls, governance and/or risk management that should be resolved as a priority
Medium	Address a control weakness in relation to internal controls, governance and/or risk management that should be resolved within a reasonable period of time
Low	Address a potential improvement opportunity in relation to internal controls, governance and/or risk management

Distribution

Title
Managing Director, Finance & Operations
Director, Operations
Head, Procurement
Manager, Information Technology, Knowledge Management & Technology Solutions

For Information

Title
Chief Executive Officer
Deputy Chief Executive Officer
Managing Director, Audit & Investigations
Executive Team
Director, Legal
Head, Risk