



ORGANISATION DE L'AVIATION
CIVILE INTERNATIONALE

INTERNATIONAL CIVIL
AVIATION ORGANIZATION

Internal Audit Report
on
Contract Management

IA/2023/3

Office of Internal Oversight

ACRONYMS

ADB	Bureau of Administration and Services
ANB	Air Navigation Bureau
ATB	Air Transport Bureau
ERP	Enterprise Resource Planning
FOS	Field Operations Section
FIN	Finance Branch
GRN	Good Receipt Note
ICAO	International Civil Aviation Organization
LEB	Legal Affairs and External Relations Bureau
LTA	Long Term Agreement
OIO	Office of Internal Oversight
PRO	Procurement Section
RCMS	Responsible Contract Management Staff
TCB	Technical Cooperation Bureau
TSU	Technical Support Unit

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EXECUTIVE SUMMARY

1. As part of its annual work plan for 2022 (C-WP/15452), the Office of Internal Oversight (OIO) carried out an audit of contract management. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Audit*¹.
2. The objective(s) of the audit were to assess the adequacy, effectiveness, and efficiency of a) governance, risk management and internal control processes over contract management; and (b) compliance with ICAO Rules and procedures as well as vendor performance.
3. The revision of the Procurement Code and the separation of Procurement Section (PRO) from Technical Cooperation Bureau (TCB) in December 2021, improved the governance mechanisms over contract management and helped ensure proper segregation of duties between contract management, procurement, and contract administration. The roles and responsibilities of Responsible Contract Management Staff (RCMS) are clearly defined in the Procurement Code. The Contracts Board mandate, its roles, and responsibilities, are also clearly established.
4. Handover processes between the contract award and contract management are assessed to be effective and ensure continuity of contract ownership throughout the contract life between PRO and RCMS. In its review of contracts managed in TCB and regular programmes, OIO found that controls were mostly adequate and effective, and noted areas that ICAO Management needs to address.
5. The lack of a contract management tool integrated with Agresso prevents ICAO and contract managers to manage and report on their contracts. Key management information such as number of active contracts, values, contract manager name, dates of contracts renewal or key milestones are missing.
6. While presentations on the revised ICAO Procurement Code were made to RCMS in late 2021, there is need for specific training for contract managers for enhancing their contract management skills.
7. While reported completion rate of suppliers' performance assessment is satisfactory, improvement of the timeliness for completing suppliers' performance assessment forms is necessary to ensure that payments are made based on supported evidence of satisfactory delivery of services.
8. Procedures related to contract change orders, extensions or renewals were found adequate, however, these requests need to include the last supplier performance evaluation and an assessment of potential risks related to the contract extension or renewal.

Overall Conclusion

9. Based on the results of the audit, OIO has given an audit rating of "Some Improvement Needed". This report includes two high priority and two medium priority recommendations. The significant risks identified during the audit are associated with the absence of contract management software and the need to strengthen contract extension and renewal requests. Other areas of improvement include professional training on contract management and improvement of timeliness for completing suppliers' performance assessments. All recommendations in the report have been accepted by the Management. Management comments and proposed actions to implement the recommendations are detailed in the Management Action Plan at Annex 2.

Acknowledgement

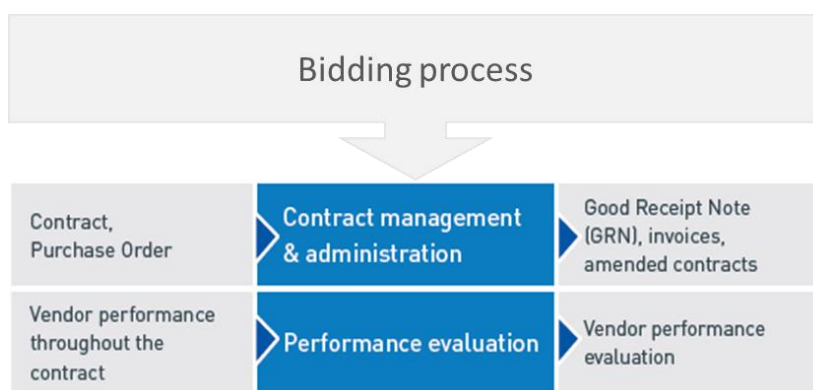
10. OIO wishes to thank management and staff for their assistance and cooperation during the audit.

¹ In line with IIA Standard 1321.

RESULTS OF THE AUDIT

Background

11. Contract management is defined in the ICAO Procurement Code as all actions undertaken after the award of a contract and covers activities such as vendor performance monitoring, payments, contract closure, record retention and maintenance of the contract file. The primary goal of contract management is to ensure that quality goods and services, in the right quantity, are delivered on time and in accordance with the agreed terms.
12. Contract administration function supports contract management through activities that are undertaken by ICAO Procurement staff in charge of the procurement process and following the contract award. These activities comprise administrative aspects of the contract such as contract amendments or extensions, handling security instruments (e.g., performance bonds), and handling any disputes or claims relating to the interpretation. The procurement staff responsibilities with regards to contract administration are listed in the Procurement Code under article 13.1.2.2.
13. Until December 2021, contract management responsibility for TCB related contract was under ICAO Procurement and was then reassigned to the Responsible Contract Management Staff (RCMS) in TCB for proper segregation of duties like it was the case for the regular programme contracts. RCMS and allotment holders' responsibilities are defined in the Procurement Code article 13.1.1.3.
14. Contract management starts at the end of the bidding process when awarded contracts are handed over to contract managers as shown in the chart below:



15. As of February 2023, there were 91 active contracts, including 55 related to TCB activities and 36 related to the regular budget². These contracts represented respectively, USD 196.0 million and CAD 23.7 million.

Audit Objectives and Scope

16. The objectives of this audit were to:
 - a. assess adequacy, effectiveness and efficiency of governance, risk management and internal control processes over contract management; and
 - b. review compliance with ICAO Rules and procedures as well as vendor performance.
17. The scope of the audit covered contracts managed by different ICAO Bureaus and Offices for the period January 2020 to December 2022. Scope of this audit excludes Delegated Purchase Orders

² List of active contracts shared by PRO

and engagement of consultants, further, contract management in Regional Offices is covered through regular audits of these Offices.

Methodology

18. To achieve the above audit objectives, OIO carried out interviews with key ICAO personnel; reviewed relevant documentation such as the new procurement code, the guidance on the new procurement code and annual report on vendor performance; undertook analysis of data on contract management and a sample of 20 contracts was tested (10 from regular programmes and 10 for TCB). Additional procedures such as review of existing tools and systems were included.

Audit Findings and Recommendations

Governance and risk management

Roles, responsibilities, and contract ownership are clearly established.

19. Effective planning, governance and risks management of contract management ensures that this function is properly handled, and that contract management is supporting the organization to achieve its objectives.
20. Individual contract ownership is effectively established, and all contracts have identified contract managers (RCMS, allotment holders). Contract managers are regularly involving procurement staff from the tendering to the contract award process. Contract handovers are effectively done between PRO and contract managers who keep close contact with Procurement Section (PRO), in case there is need for contract assistance and clarification. Handovers for complex contracts are done through effective meetings with RCMS, while simple contracts handovers are done via email.
21. The procurement code clearly describes contract management roles and responsibilities, distinguishing them from contract administration falling under PRO's responsibility. Overall contract management ownership was clarified since December 2021 when the ownership of contracts related to TCB activities was transferred to the Field Office Support in the dedicated Technical Support Unit (TSU) in TCB. This transfer reaffirmed roles and responsibilities of the different stakeholders and ensured proper segregation of duties over contract management in this Bureau. Further, interviewed contract managers confirmed that their respective job descriptions clearly specify their roles and responsibilities regarding contract management, and that their annual individual performance assessment include contract management criteria when relevant. Delegation of authority was found commensurate to the responsibility of contract managers.

Absence of corporate training on contract management

22. Staff members assigned with contract management responsibilities need to be adequately skilled with access to relevant training, development opportunities and good practices.
23. Currently, contract management guidance and identified sources for contract managers in ICAO are limited to the procurement code and the "quick guide for requisitioners and allotment holders". These documents aim at providing general guidance and not necessarily intended to give detailed and practical examples or techniques to manage contracts, or vendor performance.
24. ICAO RCMS are not professional contract managers, and even if several of them have been trained on project management (PRINCE 2) and in international public procurement³, the last training sessions on contract management were delivered in late 2021. Since then, none of them

³ United Nations Development Programme International Public Procurement training by the Chartered Institute of Procurement and Supply (CIPS)

benefited from a dedicated corporate professional contract management training, even though TCB informed OIO about a planned training for a staff who recently joined TSU. While some RCMS are seasoned contract managers, others have less experience in the area, however, as they are spread in different Bureaus, mentoring and on-the-job training is limited.

25. RCMS interviewed during this audit confirmed this absence of training and expressed a high interest in being (re)trained on contract management to ensure they become more acquainted with procedures, processes, best practices, and tools supporting contract management. RCMS expressed a strong engagement to contribute to best value for money procurement of services and goods in compliance with contracts' deliverables, and ultimately create a "community" of contract managers to share good practices and get or provide support in case of challenges.

Recommendation 1	Professional training on contract management
Priority	Medium
<p>ADB should assess the training needs of contract managers and develop a training plan accordingly to strengthen contract management skills, enhance contract ownership and create an ICAO contract managers' community.</p> <p>Closing criteria:</p> <ul style="list-style-type: none"> a. Assessment of professional contract management training needs. b. Development and dissemination of professional contract management training. 	

[Annual Procurement Planning and Long-Term Agreements are expecting to lower post facto contract extensions and renewals.](#)

26. Effective contract management is heavily dependant on proper planning. ICAO annual procurement planning approach was revised in 2023 and Management communicated about the critical need for anticipation. PRO staff observed and confirmed that procurement seasonality changed compared to past years with an unexpected peak of procurement requests made in the first quarter of 2023. Provided that requisitioners plan accordingly, this should improve renewal and contract extensions planning across the year and prevent last minutes requests.
27. In addition, and in line with Procurement Code, an emphasis was put-on Long-Term Agreements and mutual recognition of service contracts within the UN System, which Management expects to improve procurement efficiency and ease related contract management.

[Contracts Board roles and responsibilities are clearly established with regards to contract management.](#)

28. Contracts Board is an important element of contract management governance as it is involved in the extension, renewal and change orders affecting awarded contracts. The terms of reference of the Board are clearly defined in the 2021 ICAO Procurement Code, chapter 9, including the Board's mandate, its composition and review process whereby the Board has a role of oversight on processes and advisor to the appropriate procurement authority. The Procurement Code, chapter 13, further clarifies the role of the Contracts Board regarding amendments, extensions, and renewal of contracts.
29. Interviewed staff members, including the Chair of the Contracts Board, were of the opinion that the current arrangements were adequate and working effectively. The review of the post facto cases presented to the Contracts Board did not show any pattern of unjustified contract extension or renewal requests.

Effectiveness of contract management

Absence of standardized contract management tools and contract management software

30. Effective integrated contract management tool supports organizations and contract managers in logging, managing, monitoring, overseeing, making decision and reporting on their contracts.
31. ICAO lacks an integrated contract management tool allowing recording of key information, managing contract metadata, or providing key management information such as number of active contracts, values, contract manager name, dates of contracts renewal or key milestones.
32. The missing contract management tool was raised by all interviewed contract managers as the main challenge in discharging their responsibility for managing contracts and reporting on them. While Agresso has information on budget, purchase orders, receipt of goods and services, and payment processing, there is a missing central element, or module, for contracts. For instance, PRO noted that the identification of the contract owner in Agresso was unclear. The absence of a contract management software prevents automated notification or alerts of trigger dates or notice period to the contract managers. Compensating controls are needed such as reminders sent by PRO to RCMS on the upcoming renewal or end of contracts. This situation impacts PRO who has to process last minute contract extensions or renewals, sometimes preventing the organization to survey the market, and mobilising the Contracts Board on very short notice for review of cases potentially impacting directly best value for money principle.
33. In response to the lack of integrated contract management module in Agresso, contract managers had developed their own tools with various levels of complexity and effectiveness with no consistency across ICAO. In TCB, TSU uses JIRA (a project management application) to monitor and manage contracts. In ADB, ICT uses Service Desk Plus application for contract management. Information Security is using complex spreadsheets for monitoring and managing a complex contract on security roadmap. Other contract managers have different approaches, depending on contract complexity, ranging from simple spreadsheets to no tool at all.
34. While JIRA in TCB has some integration with Agresso, the others have not, and essential information for contract management are spread into these different systems and documents. This renders particularly difficult to get an overall management view of active contracts across the organization and impossible to generate regular, accurate and comprehensive reports on corporate contract management information.
35. PRO confirmed that the need for an integrated contract management module has been expressed in the discussions related to the new ERP and provided a list of the contract management critical requirements to be considered for inclusion in the new ERP.
36. In the meantime, while the new ERP is being developed, ICAO contract managers will benefit from a monitoring and managing chart, fact sheet or spreadsheet gathering contracts' key information which will help RCMS managing their contracts. PRO developed a detailed handover sheet for larger TCB contracts and consideration to extend it to smaller contracts and large purchase orders for the entire ICAO is needed.

Recommendation 2	Integrated contract management tool
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Priority	High
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ADB should (i) incorporate contract management critical requirements in the ERP system under development and, (ii) develop and disseminate a standard contract management key information fact sheet to RCMS Corporate Business Owners in support of their daily contract management.

Closing criteria:

- a. Effective roll out of a contract management module in the ICAO future ERP system.
- b. Development and further dissemination of a standard contract management information fact sheet containing key information and data.

Suppliers' performance evaluations require substantiated and timely submission.

37. Contract management responsibilities comprise documenting and monitoring of vendor performance and formally assessing this performance against the agreed performance measurement criteria and milestones. Assessments are expected to take place in the course of the contracts and at their end. Vendor performance assessment is a key aspect to ensure that services and goods are provided at best value for money and in line with contractual clauses.
38. ICAO has an effective vendor performance assessment framework and mechanisms whereby RCMS review and assess vendor performance using a standard form⁴ and self developed tools. OIO noted for instance that CSG developed a comprehensive supplier evaluation monitoring table comparing suppliers' performance over time. The standard forms completed by RCMS are also used by PRO for reporting to management on suppliers' performance⁵. This analysis covers ICAO's major suppliers servicing regular programme and technical cooperation. The results of this analysis showed a satisfactory level of 87% and negative results are followed up by PRO with RCMS.
39. From this analysis, PRO identified several areas of improvement including addressing the last-minute completion of the evaluation forms at the end of the fiscal year (RCMS were mostly responding at the last minute, in a "automated" manner), and the provision of a fair, objective, and substantiated assessment based on contractual clauses and criteria.
40. As confirmed by PRO, the current workflow in Agresso does not require that the evaluation form is completed before final payment to the supplier is authorized and processed, and this could be a reason for which suppliers' performance assessment forms are not always timely completed. Further, in OIO's view, the absence of text fields to provide comments on whether agreed performance measurement criteria and milestones were achieved, reduces the relevance and pertinence of the assessment forms quickly completed and sometimes in a standard manner.

Recommendation 3 Suppliers' performance assessment

Priority Medium

ADB should (i) review the supplier assessment form by adding a mandatory provision of a narrative field for assessing performance against contract's criteria and (ii) request RCMS and allotment holders to complete suppliers' performance form and attached the form in Agresso together with the other documents supporting the three-way matching required for payment authorization and processing.

Closing criteria:

- a. Revision and dissemination of supplier performance assessment form.
- b. Issuance of an instruction requiring completed supplier performance assessment form is attached in Agresso before final payment is authorised and processed.

⁴ PRO form XIII.1 Supplier Performance Evaluation Form

⁵ 2022 Supplier Performance Evaluation Analysis report from PRO, issued 6 March 2023, covered 90 suppliers.

Contract renewal and extension requests need to include risk and performance assessments

41. Contract renewal and extension are expected, in line with ICAO Procurement Code, to be subject to satisfactory performance of the supplier. Review of potential risks that the organisation may face is expected to be undertaken before continuing an engagement with a supplier.
42. ICAO put in place an effective contract renewal and extension process requiring RCMS, allotment holders and requisitioners to prepare and submit related requests, which will be reviewed and assessed by the required approving authority. The standard procurement authority thresholds apply, and involvement of the Contracts Board is required as needed.
43. The current process is supported by the "Purchase Order/Contract change order request Form"⁶. OIO noted that the form and the process do not request to mention the actual performance of the supplier nor requests that past performance assessment forms are added to the form. Also, no risk assessment is required to support the extension or the renewal while risk assessments are conducted before the initial procurement and contract award process. PRO explained that every renewal and extension is usually subject to a vetting process, similar to a risk assessment, using dedicated checks and balance including reference to the UN Global Market vendor list and legal analytics data base. PRO added that to mitigate information security risks, all IT related contracts go through an annual security assessment made by ICAO Information Security team (including annual checks of ISO certification). However, this review is not documented in the renewal and extension forms. PRO also confirmed that the current form does not reflect the past performance of the suppliers.

Recommendation 4	Contract renewal and extension requests
Priority	High
<p>ADB should require from allotment holders that change orders, renewal or extension of contracts requests systematically include (i) a completed supplier performance evaluation and (ii) risk assessment on contract extension or renewal.</p> <p>Closing criteria:</p> <ol style="list-style-type: none"> a. Revision and dissemination of Purchase Order/Contract change order request form including suppliers' performance and risk assessment reference. 	

⁶ PRO form XIII.4 PO Change Order Request Form

ANNEX 1: DEFINITION OF AUDIT TERMS

Audit Ratings

In providing an overall assessment of the results of the audit, OIO uses the following standardized audit rating definitions:

Audit Assessment	Definition
Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses or areas for improvement were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Several key control weaknesses were noted and/or several areas of strategic/high importance were identified where significant improvements can be made to increase efficiency and effectiveness.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Internal control is defined as a process effected by senior management and staff, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance objectives. Whilst internal control provides reasonable (but not absolute) assurance of achieving organizational objectives, limitations may result from:

- suitability of objectives established as a precondition to internal control;
- reality that human judgment in decision making can be faulty and subject to bias;
- breakdowns can occur because of human failures such as simple errors;
- ability of management to override internal control;
- ability of management, other staff, and/or third parties to circumvent controls through collusion;
- external events beyond the organization's control.

Priority of Audit Recommendations

The audit recommendations in this report are categorized according to priority as a guide to management in addressing the issues raised. The following categories are used:

High: recommendations, which address significant and/or pervasive deficiencies or control weaknesses, or areas where significant improvements can be made.

Medium: recommendations, which address important deficiencies or control weaknesses, or areas where some improvements can be made.

Low: suggestions, which represent best practice, or general opportunities for improvement.

ANNEX 2: MANAGEMENT ACTION PLAN

Ref	Recommendation	Priority Rating	Accepted (Y/N)	Management Comments	Agreed Actions	Office/ Section Responsible	Target Date
1.	ADB should assess the training needs of contract managers and develop a training plan accordingly to strengthen contract management skills, enhance contract ownership and create an ICAO contract managers' community.	Medium	Y	Agreed.	ADB shall endeavor through HR/POD, to seek a contract management training course catered for ICAO Contract Managers/Business Owners.	ADB (HR/POD in coordination with PRO)	30 June 2024
2.	ADB should (i) incorporate contract management critical requirements in the ERP system under development and, (ii) develop and disseminate a standard contract management key information fact sheet to RCMS Corporate Business Owners in support of their daily contract management.	High	Y	Agreed. Note that for point (ii), the "fact sheet" has already been developed.	<p>(i) Contract Management Critical requirements have been advised to the ERP Working group and ADB will continue to follow this requirement as the ERP project matures.</p> <p>(ii) The existing Fact sheet used for TCB will also be disseminated to Corporate Business Owners.</p>	<p>ADB (PRO, ICT and ERP Working Group)</p> <p>ADB (PRO)</p>	<p>31 March 2024</p> <p>30 September 2023</p>

Ref	Recommendation	Priority Rating	Accepted (Y/N)	Management Comments	Agreed Actions	Office/ Section Responsible	Target Date
3.	ADB should (i) review the supplier assessment form by adding a mandatory provision of a narrative field for assessing performance against contract's criteria and (ii) request RCMS and allotment holders to complete suppliers' performance form and attached the form in Agresso together with the other documents supporting the three-way matching required for payment authorization and processing.	Medium	Y	<p>Agreed.</p> <p>(i) A section for narrative already exists as optional and will now be made mandatory.</p> <p>(ii) It should be noted that while an ICAO Business Owner may express a poor performance by a supplier, the request for payment authorization is governed by compliance of the supplier to the terms and conditions of a contract or purchase order. The supplier performance, if negative/poor should serve to limit renewals or future engagements if there has been unsatisfactory results.</p>	<p>(i) Narrative portion of existing form will be made mandatory and ICAO business owners will be advised.</p> <p>(ii) ICAO Business Owners will be advised through a postmaster or IOM on the need to attach a supplier review together with payment request.</p>	<p>ADB (PRO)</p> <p>ADB (PRO)</p>	<p>15 October 2023</p> <p>15 October 2023</p>
4.	ADB should require from allotment holders that change orders, renewal, or extension of contracts requests systematically include (i) a completed supplier performance evaluation and (ii) risk assessment on contract extension or renewal.	High	Y	As noted during the closing meeting for this audit, this is a shared responsibility and while ADB can certainly advise all ICAO Business Owners, the responsibility to implement this audit	ADB shall draft a guidance (IOM or Postmaster) to address the two actions required under recommendation 4 as well as the actions under recommendation	ADB (PRO)	15 October 2023

Ref	Recommendation	Priority Rating	Accepted (Y/N)	Management Comments	Agreed Actions	Office/ Section Responsible	Target Date
				<p>recommendation lies with all Bureau Directors at HQ and Regional Offices.</p>	<p>3 above. The guidance will be addressed to all Bureau Directors at HQ and Regional Offices and presented to OSG for promulgation.</p>		