

Ministerie van Buitenlandse Zaken
DSH / HH
T.a.v. mevrouw
Postbus 20061
2500 EB Den Haag

P.

Ons kenmerk: 17.037/PK

Den Haag, 11 april 2017

Geachte mevrouw P. ~~remme,~~

beste Christine

Op zijn verzoek stuur ik bijgaande brief van de heer Watts, CFO van Save the Children International, aan u door.

Het betreft hier de uitkomst van het onderzoek naar kartelvorming bij aankopen van hulpgoederen in Turkije voor onze hulpoperaties in Syrië.

Graag tot nadere toelichting bereid.

Hoogachtend,

Pim Kraan

Directeur Save the Children

Mrs **R**
c/o Save the Children Netherlands
P.O.Box 82061
ZIP Code 2508EB
The Hague
The Netherlands

6 April 2017

Dear Mrs **P,**

Reference is made to the letter of our CEO of Save the Children Netherlands, dated 19 August 2016, reference number 16.075/PK.

We now write to update you on the outcome of our further investigation into procurement activities in our Turkey country office. We start with a short reminder of the background.

Background

Last year Save the Children launched an investigation into the procurement function of its Turkey Country Office (CO), which was responsible for programming in North West Syria. Our investigations were prompted by information received from USAID/OIG and whistleblowing allegations made by a Save the Children employee from within the CO.

During the course of our investigations, it became clear that, in respect of at least one of our employees, there were indications of practices that required further scrutiny.

Investigations and review

KPMG have now completed two detailed investigations on our behalf. This is in addition to our own internal review of internal controls in the Turkey procurement process.

KPMG's first report ("Project Ephesus") was provided to us in July 2016 and focused primarily on whistleblower allegations made by a member of staff. KPMG reviewed procurement files and email communications between members of Save the Children's procurement team and certain vendors. It was also conducted against the backdrop of specific allegations being investigated by OIG that Seymen Ciray (a member of the Save the Children procurement team in Antakya, Turkey) shared confidential procurement documentation with Ernest Halilov, a person identified to us by OIG. In tandem with this process, Save the Children conducted its own internal review of the procurement processes within Antakya, Turkey.

Both the KPMG investigation in Project Ephesus and our internal review found evidence that some staff failed to comply with existing processes and protocols but did not find evidence of wrongdoing. The reports identified a

failure to adhere to procurement policies in dealings with specific vendors, and weaknesses in the application of our documented procurement practices and the process itself.

Save the Children responded by instituting an extensive Remediation Plan in our procurement practices and operations in Turkey. We also carried our procurement spot checks in all other country offices supporting our humanitarian work in Syria.

Subsequently, following a review of Skype material, KPMG found evidence suggestive of Seyman Ciray's involvement in organised bid rigging and collusion.

In response, we further engaged KPMG specifically to address the question of determining and quantifying loss to donors as a result of the failure by certain employees in Turkey to follow our procedures or any fraudulent behaviours by our employees (with specific reference to the Seymen Ciray Skype material). It also acknowledged the further information we received from OIG.

KPMG identified and reviewed a risk-based selection of our procurement contracts associated with our work in Turkey. This involved scrutiny of:

- procurement files and papers;
- electronic communications of the principle Save the Children procurement staff, including the Skype material suggestive of involvement in organised fraud;
- contracts with vendors identified to us by OIG and DFID - known as 'blacklisted' vendors;
- vendors otherwise identified as of potential concern by KPMG; and
- corporate intelligence information to identify any links between certain individuals and vendors.

This was referred to as "Project Cynthia" by KPMG and has recently concluded. We can now update you on their findings.

Conclusions

The Cynthia Review has been detailed and extensive, involving 2,100 hours of KPMG's time (the total cost of their work to date is £440,604). Although KPMG identified certain communications suggesting a concerted attempt by Seyman Ciray and certain external vendors to manipulate our procurement processes, they did not find evidence of a direct link between any material/communications suggestive of wrongdoing and identifiable contracts. Therefore, notwithstanding KPMG's comprehensive analysis, they have not found evidence establishing financial loss to donors in the sample of contracts they reviewed.

We are now concluding our investigations of the historic events within our procurement function in Turkey. Save the Children recognise that there was an environment in our Turkey country office which made us vulnerable to improper and/or illegal practices. However, the various and comprehensive reviews undertaken by us and KPMG have allowed us to conclude that such practices are not linked to direct evidence of any financial loss to donors.

Next steps

As mentioned above, Save the Children have implemented an extensive Remediation Plan in our procurement practices and operations in Turkey and more broadly. As an organisation we are determined to learn the lesson of these events. All individuals involved with or associated with any improper practices are no longer employed by us and we have new country leadership in place. Most importantly, we have enhanced our controls and put in place additional safeguards to ensure we have much greater visibility in the future.

Save the Children are now reinforcing our controls in Turkey and more generally. We have implemented all elements of our Remediation Plan in Turkey. Procurement activities in Turkey are now fully compliant and therefore back to business as usual.

We hope this serves as a full and clear update on the steps we have taken and why we are concluding our investigations. Should you wish to discuss further we are very happy to do so.

Yours sincerely,



Jon Watts
CFO, Save the Children International

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Betreft: (intern) onderzoek Save the Children Turkije
Onze referentie: 16.075/PK

Den Haag, 19 augustus 2016

Geachte mevrouw P.

Met deze brief breng ik u, in aanvulling op het telefoongesprek van vandaag, nader op de hoogte over het USAID onderzoek in Turkije.

Eind vorig jaar, in december 2015, heeft USAID via hun 'Office of Inspector General' (OIG) Save the Children geïnformeerd dat zij een breed onderzoek zijn begonnen onder meerdere hulporganisaties naar hun aankoopprocedures, specifiek wat betreft de aankoop van hulpgoederen voor de Syrië respons. Save the Children heeft in reactie daarop en in nauwe samenwerking met USAID direct een eigen onderzoek ingesteld naar de interne aankoopprocedures, specifiek gericht op het kantoor van Save the Children in Antakya, Turkije. Er was toen nog geen aanleiding te vermoeden dat daar Nederlandse financiering bij betrokken was.

KPMG Forensics heeft vervolgens in opdracht van Save the Children onderzoek gedaan naar de aankoopprocedures van ons kantoor in Antakya. Daarnaast heeft een eigen fraudebestrijdingsteam van Save the Children International gekeken naar de aankoop- en controle procedures binnen het kantoor en de mate van na- en opvolging door het personeel van dit kantoor. Het rapport van beide onderzoeken is op 29 Juli 2016 met ons gedeeld.

Beide onderzoeken leveren geen direct bewijs op van fraude of onrechtmatigheden binnen afgeronde aankoopprocedures van Save the Children in Antakya. Wel is er geconcludeerd dat procedures en protocollen niet consistent zijn gevolgd wat ertoe heeft geleid dat er o.i. ontdeelaatbare aankoopwerkwijzen zijn ontstaan. Zo is bijvoorbeeld de focus op verkeerde criteria gelegd tijdens het selecteren van leveranciers (leveringstijd boven kwaliteit en ervaring); zijn vrijstellingen te gemakkelijk toegekend (in verband met tijdsdruk) en zijn niet altijd even consequent de advertentiemogelijkheden benut om een uitgebalanceerd aanbod van leveranciers te verkrijgen.

Save the Children heeft op basis van bovenstaande bevindingen verder onderzoek ingesteld naar vier personeelsleden en de desbetreffende personen dientengevolge direct op non-actief gezet. Drie medewerkers hebben inmiddels zelf ontslag genomen, de laatste medewerker staat onder strenge supervisie totdat zijn contract eindigt eind deze maand, waarna hij zal afvloeien.

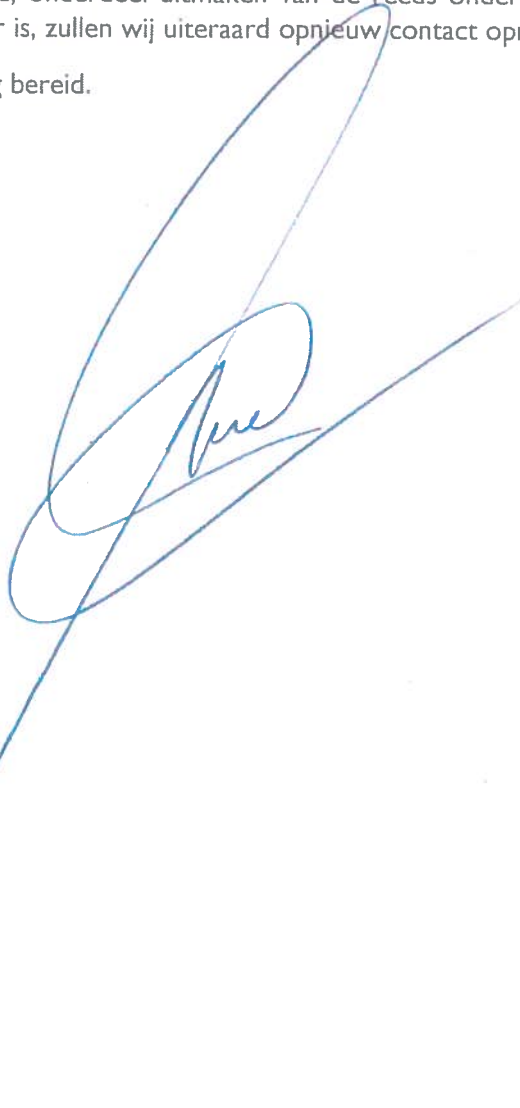
Save the Children neemt de uitkomsten van deze rapportages erg serieus, met als gevolg dat ook de aankoop- en controleprocedures verder zijn onderzocht en dusdanig zijn aangescherpt dat procedures aan meer eisen moeten voldoen en er meer controle is, nationaal en regionaal, op de uitvoering van dergelijke protocollen. Dit is ook van cruciaal belang om onze humanitaire response optimaal en transparant te laten verlopen.

Save the Children is zich terdege bewust van de ernst van deze situatie en doet er alles aan de bovenste steen in deze zaak naar boven te krijgen. Het onderzoek van USAID, inmiddels tevens onder grote interesse van andere donoren waaronder DFID, is nog niet afgerond en eerste bevindingen zijn derhalve nog niet gedeeld. Wij vinden het desalniettemin belangrijk het Ministerie hierbij alvast op de hoogte te brengen van bovenstaande feiten, mede omdat fondsen van Buitenlandse Zaken voor noodhulpactiviteiten in Syrië, onderdeel uitmaken van de reeds onderzochte inkopen. Wanneer er meer informatie beschikbaar is, zullen wij uiteraard opnieuw contact opnemen.

Graag tot nadere toelichting bereid.

Met vriendelijke groet,

Pim Kraan
Directeur



Private and Confidential

30 July 2016

TO: Global Programme Directors, Save the Children members programming in Turkey/NW Syria

Re: Save the Children International - Turkey / North West Syria Country Office summary of findings and management response

Save the Children has been conducting an investigation into the procurement of goods and services supplied via Turkey in relation to our programming in Syria. This document is intended to provide an overview of the situational context, the investigation process and findings and Save the Children's management response.

Background

Save the Children began programming in Syria at the end of 2012. Our work inside Syria focuses on providing lifesaving assistance to the most marginalised children and their communities. In early 2016, in response to the political climate and ongoing safety and security issues in the region, we transitioned our operations in North West Syria from a combination of direct and partner implementation to a 100% partner implementation model. Our team continue to provide oversight and programme management from the Turkey country office, based in Antakya, Turkey. This was the right decision for our staff and the communities we work with long-term.

Now more than five years into the conflict, operating inside Syria presents significant complexities. To respond to urgent humanitarian needs we must be able to respond quickly, including the ability to provide life-saving goods within tight timelines. In addition, increased security measures and migration in Turkey and Syria create issues in recruiting and retaining strong talent and partners. Despite ongoing challenges, our work is saving lives. To-date our programmes have reached over 2 million people, including nearly 1.3 million children inside Syria – of which a significant number of programming was managed from the Turkey country office.

Investigation and Internal Review background

Through our internal risk management process, in late 2015 Save the Children recognised and addressed core leadership concerns at the Turkey country office, culminating in the departure of the then Turkey Country Director in early 2016. In addition, Save the Children was made aware of concerns raised by DFID and notified of the USAID OIG (OIG) investigation into procurement activities in Syria. Wanting a better understanding of its own procurement function in Turkey, we launched an internal review of the function.

Having initiated an internal review of procurement, Save the Children received whistle blower allegations from within the country office relating to the operation of the procurement function. We engaged KPMG, for an independent, forensic investigation focusing on these allegations and instructed their team to investigate with a specific emphasis on the whistle blower allegations. These included allegations of collusion and fraud relating to specific contracts, individuals and procurement activities. Steps taken by KPMG as part of its investigation included document review, formal interviews, and a forensic review of hard drives of implicated individuals.

The internal review, led by Mr. Zeeshan Iqbal, looked at the country office's procurement function and controls environment more widely. Mr. Iqbal took a risk-based approach consisting of document review, transaction testing, vendor verification and physical walkthroughs and testing of the complete control process. For a full understanding of the findings it is important to consider both reports and we have taken both into account when developing our Remediation Plan. In addition, both KPMG and the Mr. Iqbal have reviewed each other reports and the Remediation Plan recommendations.

Findings

Neither the KPMG investigation nor the internal review found direct evidence of collusion or fraudulent acts relating to any particular procurement. However, there is substantial evidence that staff members failed to comply with Save the Children policies, processes and protocols.

Both pieces of work focused on the areas of highest risk within the procurement process and those related to specific suppliers. Weaknesses have been identified across all elements of the procurement process.

To put the findings in context, the scope of the internal review work has provided assurance in relation to the following:

- There were no irregularities and weakness found beyond those outlined in the detailed report, including no irregularities of other NFI vendors or from the sample of processes that were reviewed in the other procurement categories outside NFI;
- On a sampled-basis, MEAL and third party monitoring reports on our programmes verified consistent cross-border delivery of appropriate goods and services to end beneficiaries and featured no complaints about not receiving items;
- The review uncovered no evidence of double or over-payments to suppliers; and
- It was established that procurement committees were functioning and debarred several bidders for irregularities identified, including two of the main suspect vendors, subsequently brought to our attention by USAID and DFID.

Overall, Save the Children is clear that the procurement function, in its Turkey country office, has represented an unacceptable control environment, which has made us vulnerable to abuse.

Management response and remediation steps

Accountability

Four Save the Children Turkey country office staff members were implicated through the investigation. All implicated staff were placed on immediate suspension. Three of the staff members are no longer with Save the Children. The remaining staff member was the original whistle blower who was implicated by his disclosure. However, through the investigation it was determined that his conduct demonstrated poor judgment, but no intentional wrong doing. He has now returned to work under close supervision until the end of his contract in August. His contract will not be renewed and none of these individuals will be employed by Save the Children again in the future.

Over the past year Save the Children has made significant relevant leadership changes, including appointing a new Middle East and Eurasia, Regional Director (Tom Krift) and a new Country Director in Turkey (Nick Finney). Both of these appointees are highly-respected within the humanitarian sector and have led established careers with Save the Children. We have also appointed a Head of Logistics to oversee the procurement function in the Turkey/NW Syria country office who begins in early August. These leadership changes will greatly strengthen accountability within the country office and in the region overall.

As part of planned operations strengthening through our new global strategy, Save the Children also appointed a new global Director of Supply Chain who is working to improve the function across all our countries.

Remediation Plan

Save the Children's Remediation Plan has been built specially in response to issues identified in this report. It has taken on the recommendations of KPMG and Mr. Iqbal and is committed to its rapid and efficient implementation.



The Remediation Plan outlines core improvements within the procurement function in detail, which is summarised below.

Purchase Requisition

The nature of humanitarian context demands for quick response and therefore strong and effective programme planning. Staff need to identify programming needs, define procurement plans and prepare purchase requisitions earlier. What emerges from the reports is that, the criterion of 'lead time' was frequently prioritised during the selection process.

Vendor Selection

Detailed recommendations to improve the way tenders are advertised, vendors are assessed and selected and controls established over the bid process.

Agreements and Purchase Orders

Agreement policies and purchase orders will be strengthened and monitored for effectiveness.

Payments to Vendors

The procedures taken, monitoring and infrastructure used will all be improved to strengthen this process. This includes procurement tracking and general ledger reconciliation.

Waiver System

There will be stronger monitoring, governance, clarity and communications regarding expectations of waivers and the processes within the waiver system, such as international and national sealed quotes, ratifying breaches and agreements and amending contracts.

All of this work should be seen as part of Save the Children's ongoing improvements of its supply chain. In light of this, we will be carrying out spot checks on additional country offices over the next six months to assess the strength of the procurement control environment, globally. We are currently assessing which country offices should be prioritised for the purpose of this exercise. Our initial focus will be on neighbour-countries supporting the Syria crisis, including Iraq, Jordan and Lebanon. We will be raising our compliance standards substantially and will continue to invest in programme improvements and reinforcing our compliance and controls standards.

We anticipate members and donors will have follow up questions to which we will endeavour to provide full answers in the spirit of cooperation and transparency.

Save the Children is committed to reaching the most marginalised and deprived children in the world – many of which live in extremely challenging and dangerous contexts to operate within. To do this, we need strong and effective policies and procedures, and recognise that in this instance there have been clear failings, putting the confidence of donors and our work at risk. We are committed to fixing all issues found in Turkey and applying the lessons learned. This work will improve our ability to ensure all children survive, learn and are protected.

Kind regards,

Jon Watts, Chief Financial Officer, Save the Children International

