UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

MALAWI

Report No. 1295

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Report on the audit of UNDP Malawi
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Malawi (the Office) from 18 February to 6 March 2014. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure, leadership, ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) programme activities (programme management, partnerships and resource mobilization, project management); and

(c) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The audit covered the activities of the Office from 1 January to 31 December 2013. The audit did not cover the role of UNDP in "One UN" and the Harmonized Approach to Cash Transfers (HACT) since an audit scheduled for June 2014 will cover these areas. The Office recorded programme and management expenditures totalling $18.8 million. The last audit of the Office was conducted by OAI in March 2009.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due the Office's staff costs which were not financially sustainable, low programme delivery and the weaknesses in procurement.

Key recommendations: Total = **6**, high priority = **4**

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Office staff costs not financially sustainable (Issue 1)	The Office staffing level of 72 was not commensurate with its programme size of $17 million and the main delivery modality through national implementation. The staff costs are not sustainable. Recommendation: Review the Office's organizational structure to ensure that it is financially sustainable.
Declining programme delivery (Issue 2)	The Office's total programme delivery relative to budgeted resources had decreased from 82 percent in 2011 to 71 percent in 2013. In addition, the Office had not planned adequately for resources made available for programme

	activities. Delivery of available resources declined from 75 percent in 2012 to 55 percent in 2013, while programming of non-core resources was only 40 percent during the year. Recommendation: Strengthen the planning of programme activities to enable the timely finalization and approval of project support documents and annual work plans.
Inadequate screening of vendors (Issue 5)	Of 27 randomly selected vendor forms, 24 were not complete. Vendor forms of two companies showed that their managing director was an Office staff member, which was a direct conflict of interest. The Office had not verified any of the selected vendors' bank details and did not check the existence of vendors in the Atlas database before creating and approving vendors. This resulted in 24 duplicate vendors and 146 vendors that had different vendor identification numbers but shared the same banking details. Recommendation: Improve vendor management by: confirming that all vendors complete the required forms; requiring that all vendors provide proof of identity and verify bank details; creating a checklist to help verify that new vendors do not already exist in the database; and deactivating duplicate vendors and those vendors that share banking details.
Ineffective oversight by the Contracts, Assets and Procurement Committee (Issue 6)	The Contracts, Assets and Procurement Committee inappropriately endorsed procurement selection processes that were flawed, and approved the disposal of project assets without adequate documentation. In addition, none of the Committee members had completed their procurement certifications. Recommendation: Enhance the effectiveness of the Contracts, Assets and Procurement Committee by: (a) revising the Committee's composition to ensure that its members are knowledgeable about the procurement process being discussed and the applicable rules; (b) mandating that all Committee members complete procurement certification courses and be trained in their oversight roles; and (c) reviewing all procurement processes and ensuring they are provisionally approved by the Deputy Resident Representative (Operations) before submission to the relevant committee and the Resident Representative.

Management comments and action plan

The Resident Representative accepted all of the recommendations in the areas of governance and strategic management, programme activities, project management, finance, and procurement, and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less impact (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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I. About the Office

The Office, located in Lilongwe, Malawi (the Country) had a total complement of 72 staff. Total expenditures for the year under review (1 January to 31 December 2013) were $18.8 million. The programme focus was on democracy, namely the upcoming general elections to be held in May 2014, capacity development, and climate change. This was in line with the 2012-2016 country programmes.

II. Audit results

Satisfactory performance was noted in the following areas and sub areas:

(a) Partnerships and resource mobilization. The Office partnership portfolio included the European Union, as well as the Governments of Japan, Ireland, Norway and the United Kingdom. All donor contracts had been signed and there were adequate monitoring procedures in place to ensure that funds from donors were received and reported on in a timely manner.
(b) Human resources management. Recruitment of staff and service contractors was generally in line with organizational procedures.
(c) Information and communication technology. Overall, physical access controls and back-up procedures were functioning adequately.
(d) Safety and security. A discussion with the security focal point disclosed that no notable security incidents had been recorded for the period under review. The Office had completed the procurement of additional security equipment and had repaired the walls of the Office's premises in line with recommendations made by the United Nations Department of Safety and Security.
(e) Fuel and vehicle management. Adequate controls had been implemented to monitor vehicle usage and fuel consumption. The fuel bill was being reconciled on a monthly basis and there was adequate cost recovery for the use of the Office's vehicles.
(f) Leave management. All staff members were using the Atlas system to request leave, and annual leave balances were reconciled at the end of 2013.

OAI proposes six recommendations that are ranked high (critical) and medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:
(a) Review the Office's organizational structure to ensure that it is financially sustainable (Recommendation 1).
(b) Strengthen the planning of programme activities (Recommendation 2).
(c) Improve vendor management (Recommendation 5).
(d) Enhance the effectiveness of the Contracts, Assets and Procurement Committee (Recommendation 6).

Medium priority recommendations, arranged according to significance:
(a) Strengthen the process of verifying supporting documents before processing payments and disbursements (Recommendation 4).
(b) Establish project boards that meet regularly to provide effective oversight (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Issue 1 Office staff costs not financially sustainable

Sound and prudent management strategies require offices to optimize staffing levels and costs against available financial resources.

Based on the Regional Bureau for Africa's rankings in terms of office performance, the Office was ranked 39 out of 46 countries with a management expenditure ratio of 19 percent in 2013, which was not in line with the Bureau's required average of 13 percent. Considering that 20 out of 21 of the Office's ongoing projects were nationally implemented, and considering that delivery was approximately $17 million per year, the existing staff complement of 72, with an estimated cost of $7.7 million (or 45 percent of delivery) was not commensurate with the Office's programme size and delivery modality. Specific concerns noted were as follows:

(a) Based on the 2013 local salary survey, salaries were increased by 71.3 percent for National Officers and by 47.1 percent for General Service staff, with effect from January 2014. This would result in projected increased extrabudgetary expenditures of $986,900 against a projected income of $826,000, leaving the Office with a deficit of $160,900 at the end of 2014. Based on the assumption that this trend would continue, the Office would be faced with a funding gap of $721,800 at the end of 2016. This would negatively affect the sustainability of 17 posts funded by this source of income.

(b) The Office structure was top heavy with four Assistant Resident Representatives. Each of the four programme clusters (Capacity Development, Energy and Environment, Governance, and Millennium Development Goals) was headed by an Assistant Resident Representative, instead of one overseeing all of these areas – which is generally the case in Country Offices with similar programme sizes. There were also eight Programme Associates in the following areas: one for each programme cluster; one for the Policy Advisory Unit (which had no programmes to administer); and three in the Programme Management Support Unit. This structure did not facilitate optimum use of resources and synergies within the programme units, as there were overlapping functions.

Priority High (Critical)

Recommendation 1:

Review the Office's organizational structure to ensure that it is financially sustainable.

Management action plan:

The Office will review the organizational structure to deliver effectively, in line with the new UNDP Strategic Plan. Given the May 2014 tripartite elections and the Office's technical, financial and logistical support to the Malawi Electoral Commission, the functional analysis and review will be undertaken in the third quarter of 2014.

Estimated completion date: September 2014

B. Programme activities

Issue 2 Declining programme delivery

Offices need to ensure an adequate level of programming and delivery in order to achieve programme outcomes. However, the audit confirmed that the Office's total programme delivery had been decreasing.

Programme delivery relative to budgeted resources had decreased from 82 percent in 2011, to 71 percent in 2013, which was below the Regional Bureau for Africa's average of 85 percent. Programme delivery relative to non-core resources was particularly low in 2013, standing at 60 percent compared with the Regional Bureau for Africa average of 84 percent for 2013.

The Office had also not planned adequately for resources made available for programme activities. Delivery of available resources had declined from 75 percent in 2012, to 55 percent in 2013, which was below the Regional Bureau for Africa average of 68 percent. Programming of non-core resources had been particularly problematic. In 2013, 40 percent of these resources had been programmed, compared to the Regional Bureau for Africa average of 63 percent.

Management acknowledged that there were delays in formulating project support documents and annual work plans in 2013, which caused delays in the implementation of projects and resulted in low delivery rates.

Low delivery and lack of programme planning will affect the successful attainment of programme outcomes.

Priority High (Critical)

Recommendation 2:

Strengthen the planning of programme activities to enable the timely finalization and approval of project support documents and annual work plans.

Management action plan:

- To manage future timelines more efficiently, management has already put in place a process for 2014 annual work plans, which was cleared internally by mid-December 2013 and signed by end January/mid-February 2014. Most annual work plans were signed by implementing partners by February 2014 with the remainder in the process of being finalized and signed.
- To ensure that the Office meets its delivery targets for 2014, multi-year budgeting has been introduced and non-core resources have been budgeted for future years, in line with approved annual work plans and signed cost-sharing agreements. In addition, management will ensure close monitoring of delivery through the preparation of quarterly delivery plans, which will be analysed against actual expenditures to enable timely corrective actions to be undertaken.
- On the achievement of programme outcomes, management will continue to reinforce the focus on delivering results and the importance of reporting tangible and transformational outcomes as part of progress towards annual key results.

Estimated completion date: December 2014

C. Project management

Issue 3 Inadequate project oversight

Project boards must be established for every project and are expected to meet regularly to provide effective project oversight.

Project boards did not meet regularly to undertake their project steering functions. Out of a sample of six projects (71929, 69211, 71958, 67139, 71951, and 83071), project boards did not meet to review progress made, and did not meet to review expenditures for three projects (67139, 71951, and 83071).

The absence of effective oversight by the project board for project 67139 resulted in delayed continuation of this project in 2014 as project activity could not commence until donor partners individually approved the 2014 annual work plan, which is normally prepared within the framework of a project board meeting.

Priority	Medium (Important)
Recommendation 3: Establish project boards that meet regularly to provide effective oversight.	
Management action plan: The Office has mapped out a list of all project boards/steering committees and the required frequency of meetings. Project board meetings for some programmes have started taking place while other boards are still to be established. **Estimated completion date:** June 2014	

D. Finance

Issue 4 Insufficient controls over payment procedures

The Internal Control Framework requires verification of supporting documentation before processing payments and disbursements. Based on a review of 64 accounts payable vouchers valued at $3.8 million (or 28 percent of the total value of payment vouchers processed from 1 January to 31 December 2013), the following weaknesses were noted:

(a) A total of 11 payment vouchers valued at $382,000 (10 percent of the total value of sampled vouchers) were processed without adequate supporting documentation. Eight of these vouchers that were 'Requests for Direct Payment' did not have the original request letters or the original 'Funding Authorization and Certificate of Expenditure' forms used by implementing partners to request programme funds. Three vouchers had copies of invoices attached but there was no documentation showing that goods had been received.

(b) The vouchers for two sample payments totalling $122,000 (3 percent of the valued of the sampled vouchers) had been approved in Atlas by the same person who had certified the 'Funding Authorization and Certification of Expenditure' form, which violates the principle of effective segregation of duties stipulated in the Internal Control Framework.

(c) One payment of $22,900, which should have been treated as an advance according to the Project Document, was incorrectly expensed as a grant to a civil society organization. Further assessment revealed an additional 15 payment vouchers pertaining to the same project (valued at $176,100), which were also incorrectly expensed as grants instead of being treated as advances. Expensing funds immediately upon disbursement makes it difficult to monitor and maintain accountability over the funds.

(d) The Office had not established procedures for verifying the identity of the individuals collecting cheques. Of the selected sample of vouchers, 14 payments were disbursed through cheques totalling $156,000 (or 4 percent of total value of sampled vouchers) that were collected from the Office's premises without the collectors of these cheques providing proof of identity. The existing procedure for collecting cheques called for the collector to sign the voucher as proof of collection, but did not require proof of identity.

Weak payment processing and disbursement controls might lead to the loss of funds and potential fraud.

Priority	Medium (Important)

Recommendation 4:

Strengthen the process of verifying supporting documents before processing payments and disbursements by ensuring:

(a) requests for direct payments, 'Fund Authorization and Certification of Expenditure' forms, invoices and delivery notes are originals and not copies when submitted to the Finance Unit for processing;
(b) the effective segregation of duties between certifying 'Funds Authorization and Certification of Expenditure' forms and approving payment vouchers in Atlas;
(c) funds advanced to projects are allocated to the correct account to allow effective monitoring and accounting of funds advanced to implementing partners; and
(d) the identity of all cheque collectors is requested and filed.

Management action plan:

The Office is in agreement with the above recommendation and is already in the process of implementing it in order to strengthen supporting documentation.

Estimated completion date: September 2014

E. Procurement

Issue 5 Inadequate screening of vendors

The 'Programme and Operations Policies and Procedures' stipulate that offices should exercise due diligence when entering vendors into the Atlas database. This includes verification of vendor details, banking information, and ensuring that vendors are not included in any prohibited vendor listing.

- The Office was not able to provide 3 of the 27 vendor forms randomly selected by OAI. In addition, none of the remaining 24 vendor forms had been fully completed. For example, Section 1 of the vendor form that provides details about the staff member requesting the creation of the vendor in the Office's database was not completed. Only one vendor had provided a business registration certificate and proof of trade with the Government, and the Office had not verified any of the selected vendors' bank details. Vendor forms for two companies indicated that the Managing Director for both companies was a staff member, representing a direct conflict of interest. This matter was being handled by OAI's Investigations Section, and therefore no recommendation has been made in this regard.

- The Office did not have established procedures for checking the existence of vendors in the Atlas database before new vendors were created and approved. This resulted in 24 duplicate vendors under the Office's business unit, and 146 vendors with different vendor identification numbers that shared the same banking details.

The lack of controls over vendor management has led to an investigation of potential fraud.

Priority High (Critical)

Recommendation 5:

Improve vendor management by:

(a) confirming that all vendors forms are completed and that staff requesting the creation of a vendor complete Section 1 of the form;
(b) undertaking a due diligence exercise of all active vendors to ensure that all vendors produce proof of identity and verified banking details;
(c) developing a checklist to help verify that new vendors are not already included in the Office's database before they are created and approved;
(d) requiring staff who create and approve vendors to sign the checklist and be held accountable for ensuring that the duplication and sharing of bank details is minimized; and
(e) reviewing existing vendors and deactivating duplicate vendors and/or those that share bank details.

Management action plan:

Management agrees with this recommendation and is already implementing measures for the processing of new vendors. Due to the large number of vendors (2,594 active vendors), the recommendation will be implemented gradually over a period of time.

Estimated completion date: March 2015

Issue 6 Ineffective oversight by the Contracts, Assets and Procurement Committee

The role of the procurement oversight committee is to review the procurement process for amounts over the $50,000 threshold to ensure that the selection process adheres to organizational regulations that are intended to ensure competitive processes and value for money.

- The Contracts, Assets and Procurement Committee endorsed selection processes that were not competitive. In two instances involving total contract awards of $112,480, the Committee endorsed a process where all four shortlisted companies had listed the same consultants working either as team leaders or team members. The total value of this contract was $32,480. In the second case, a contract valued at $80,000 was awarded to a medical service provider who had not been assessed by an elected United Nations team that was responsible for the initial assessment of all health providers that had submitted proposals. The explanation submitted to and accepted by the Contracts, Assets and Procurement Committee was that the company was already providing the service, and therefore did not have to be assessed. In addition, the Committee did not request a proposed budget from the unit requesting the service and therefore could not assess whether the financial proposals submitted by companies were within budget. Documentation submitted by the company that was subsequently selected as the service provider did not include a financial proposal. Instead, the Deputy Resident Representative (Operations) inappropriately informed the company of the amount that was available for the service and the company used this information to prepare a budget.

- The Committee endorsed the selection process for individual consultant contracts that had not followed the correct selection procedures. Out of a sample of five selection processes totalling $190,800 and which had been submitted and reviewed by the Committee, four cases (valued at $23,000, $12,000, $4,000, and $31,800) were below the threshold amount and should not have been submitted to the Committee for review. In all five cases, procurement notices were not prepared and/or advertised for the consultant vacancies. Candidates were not requested to submit letters of interest with technical and financial proposals. The evaluation panel had not established a minimum qualifying score for the technical review and qualification to the financial stage. The requesting unit had not included a budget for the consultancy. Financial proposals were only requested when candidates were shortlisted and were generally calculated at a daily rate, and not a flat rate for the whole consultancy as recommended by UNDP regulations. None of these issues were questioned by the Committee, and all cases submitted were approved.

- There was no evidence that any of the selected cases had been reviewed and provisionally approved by the Deputy Representative (Operations) before being submitted to the procurement committee or to the Resident Representative.

- The Committee endorsed the disposal of project assets valued at about $36,000 without adequate documentation. The endorsement was done on the basis of a verbal explanation given by the Assistant Resident Representative responsible for the project. There was no documented evidence that the implementing partner had requested these assets, or that the assets had been transferred and received by the implementing partner. OAI established that these assets were from a nationally implemented project and were in fact being transferred to the project, and should not have been submitted to the Committee for endorsement.

- The composition of the Contracts, Assets and Procurement Committee did not follow organizational guidelines. None of the Committee members had attained their procurement certifications, which violates the 'Programme and Operations Policies and Procedures', which require all staff involved in the procurement process to be certified.

Weak oversight by the Contracts, Assets and Procurement Committee may compromise the transparency of the procurement process and may prevent attaining value for money.

Priority	High (Critical)

Recommendation 6:

Enhance the effectiveness of the Contracts, Assets and Procurement Committee by:

(a) revising the Committee's composition to ensure that its members are knowledgeable about the procurement process being discussed and the applicable rules;
(b) mandating that all Committee members complete procurement certification courses and be trained in their oversight roles; and
(c) reviewing all procurement processes and ensuring they are provisionally approved by the Deputy Resident Representative (Operations) before submission to the relevant committee and the Resident Representative.

Management action plan:

Management agrees with these recommendations and implementation is in progress.

Estimated completion date: December 2014

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to significant risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.