

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MALAWI

Report No. 2028
Issue Date: 11 January 2019

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 12 to 23 November 2018. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2017 to 30 September 2018. The Office recorded programme and management expenses of approximately \$80 million. The last audit of the Office was conducted by United Nations Board of Auditors in 2017.

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/major improvement needed**, which means “The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.” This rating was mainly due to incorrect use of micro-capital grants, weaknesses in financial management, and unrecorded liabilities from contracts signed.

Key recommendations: Total = 9, high priority = 3

| Objectives | Recommendation No. | Priority Rating |
|--|--------------------|-----------------|
| Reliability and integrity of financial and operational information | 7 | High |
| Effectiveness and efficiency of operations | 4, 6 | High |
| | 2, 3, 5, 7, 8, 9 | Medium |
| Compliance with legislative mandates, regulations and rules, policies and procedures | 1 | Medium |

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:

Incorrect use of micro-capital grants
(Issue 4)

There were three grants totalling \$431,000 where funds were disbursed by the Office although expected deliverables had not been delivered. Further, the Office incorrectly recorded four payments totalling \$178,000 as grants in Atlas. These payments were requested by the implementing partners for the implementation of project activities and should have been recorded against the respective projects and not as grants. Lastly, there were three grants totalling \$363,000 for activities that did not fall under the purpose of a micro-capital grant.

Recommendation: The Office should improve the management and use of micro-capital grants by: (a) discontinuing the practice of disbursing funds for project implementation payments using micro-capital grants; and (b) ensuring that staff initiating and approving grant agreements are trained on the intended purposes of grants.

Weaknesses in financial management
(Issue 6)

The following weaknesses were noted:

- The audit team reviewed a sample of 19 vouchers totalling \$473,000. Of these, 9 had been issued using duplicate documents to replace original payment vouchers whose electronic fund transfer payments had been returned by the bank.
- The audit team reviewed a sample of 45 payment vouchers totalling \$5.6 million. Of these, the Office approved 29 payments in Atlas amounting to \$17,000 but they were put on hold during the audit period. Of these, 20 vouchers were on hold for more than six months. The audit team also requested supporting documents for three payment vouchers, but these were not made available.
- The Office used a local bank to disburse cash advances to multiple third-party beneficiaries through either cash payments or electronic fund transfers. The Office did not receive reconciliation documents from the bank for electronic fund transfers. The total payments made to the bank (from January 2017 to June 2018), for which there was no accounting for the use of funds, was \$1.6 million.

Recommendation: The Office should improve the financial management process by ensuring that: (a) no payment vouchers are created and approved using duplicate documents or without supporting documents; and (b) funds advanced to the bank for payments to beneficiaries are fully accounted for and reconciled, and balances are refunded in a timely manner.

Unrecorded liabilities from contracts signed
(Issue 7)

The audit team noted that five vendors had been contracted but the Office did not raise purchase orders when the contracts were signed. Instead, the Office paid \$3 million from the 14 purchase orders that were issued when it was time for the vendors to be paid. Further, it was not possible to determine the remaining outstanding liabilities as the Office did not maintain a record of contracts issued, amounts paid from those contracts, and amounts outstanding.

Recommendation: The Office should properly record all contract liabilities by: (a) undertaking an inventory of all existing contracts and updating Atlas to fully reflect all outstanding commitments; and (b) raising purchase orders in Atlas immediately after contracts are signed with vendors in the future.

Management comments and action plan

The UNDP Representative accepted all nine recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, appearing to read 'H. Ostveiten', is written over a rectangular box. The signature is stylized and somewhat cursive.

Helge S. Ostveiten
Director
Office of Audit and Investigations