UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

MALAWI

Report No. 2303

Issue Date: 29 September 2021

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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 24 May to 11 June 2021. 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
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

OAI designed the following six performance audit questions to guide the review of the following areas:

Development Activities
1. Were development results being achieved effectively and results monitored based on pre-defined monitoring frameworks?
2. Were development results being achieved in accordance with the planned budget and timeframe?

Procurement
3. Did procurement processes result in the procurement of required services and products (effectiveness) in a timely manner (efficiency) and at best value for money (economy)?
4. Was procurement undertaken with fairness, transparency, integrity and by applying the UNDP guiding procurement principles?

Finance
5. Were financial transactions processed timely and accurately?

Human Resources
6. Was recruitment conducted in a timely manner?

The audit covered the activities of the Office from 1 January 2020 to 31 March 2021.The Office recorded programme and management expenses of approximately $47.13 million. The last audit of the Office was conducted by OAI in 2018.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.
(e) Safe content and petty cash were not verified.
(f) The information communication and technology area were not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance 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 weaknesses in Country Programme oversight, project administration, procurement, and finance.

Key recommendations: Total = **7**, high priority = **5**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	High
Effectiveness and efficiency of operations	4, 6	High
	3	High
	7	Medium
Compliance with legislative mandates, regulations, and rules, policies, and procedures	5	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:

Weaknesses in monitoring and oversight of Country Programme and Country Office projects (Issue 1)

The audit team noted the following weaknesses in the monitoring and oversight of Country Programme and Country Office projects:

- The Joint Steering Meeting (JSM) was not providing overall oversight of programme implementation.
- The UN Development Assistance Framework mid-term review included in the 2020 workplan was not carried out as the Programme Management Team and the Monitoring Evaluation and Advisory Group had focused on preparing the 2020 annual review report.
- The Monitoring Evaluation and Advisory Group faced challenges with collecting data.

Recommendation: To improve Country Programme oversight, the Office should ensure: (a) ensure that the mid-term evaluation is completed; (b) develop a monitoring plan that includes the collection and verification of data to assess the level of progress related to the CPD and undertake a verification of all activities and results that have been reported.

Weaknesses in design and oversight of Private Sector Development project (Issue 2)

The audit team noted the following weaknesses in the design and oversight of the Private Sector Development project:

- The Private Sector Development project did not have a clearly defined exit strategy.
- Verification of project progress reporting was inadequate.
- The Office did not verify the reporting undertaken by the responsible party.

Recommendation: To improve the design and oversight of the Private Sector Development project, the Office should: (a) increase the number of staff in the unit to strengthen oversight and allow verification of reporting by the responsible party to be effectively done; and (b) together with the relevant government ministry and other key stakeholders, devise an exit strategy that will ensure that project benefits are not lost, and that sustainability is achieved.

Weaknesses in the procurement process (Issue 3)

The audit team noted issues in the procurement process related to the consulting firm that was providing the fund manager services of the Private Sector Development project.

Recommendation: The Office should strengthen procurement processes by: (a) conducting detailed, in-depth market research to ensure effective international competition for specialized services with a limited global market like the fund manager; (b) engaging the Regional Advisory Committee on Procurement in a timely manner for advice on complex, high-value procurement cases by requesting prior ex-ante review and justifying direct contracting based on correct permissible criteria under UNDP Financial Regulations and Rules; and confirming value for money against independent benchmarked information from other similar specialized services, if only one offer is technically qualified.

Weak contract management (Issue 4)

The following weaknesses were noted with contract management:

- There were two irregular contract amendments. One contract with an initial contract value of $47,518 was increased to $218,397. The signed amendment included incorrect names of the contracting party, an incorrect milestone schedule and did not include the authorized request from the implementing partner to increase the scope of deliverables. A second contract with an initial contract value of $149,880 increased to $179,360. The amendment was approved without scope expansion. OAI will further assess these cases .

- The Office made use of an innovative funding instrument called the Malawi Innovation Challenge Fund (MICF) to disburse sizeable grants (between $150,000 and $850,000) to private sector entities. The Country Office and the Office of Legal Services developed a custom contract template to engage private sector entities. However, the template was not compatible with the substance and nature of the agreement between the parties.

- The audit team noted deficiencies in the Private Sector Development project fund manager long-term agreement. Specifically:

  (i) The fund manager contract amendments' timeframes overlapped due to errors with dates or had time gaps with no contracts in place.
  (ii) The total value of contracts with the consulting firm from the start of the first engagement in 2014 to June 2021 exceeded the total long-term agreement value by approximately $240,006.

(iii) The scope expanded, deliverables and responsibilities were added resulting in 11 contract amendments to the fund managers annual contracts.

Recommendation: The Office should strengthen contract management and accountability mechanisms by: (a) enforcing due diligence when approving contract amendments, specifically verifying the accuracy of content information, which includes references, names, signatures, and milestone schedules; (b) discontinuing the MICF contract template with the support of the Office of Legal Services to work out a proper contract model for challenge fund grants, that if used in the future, will support the true intention and actual substance behind it, and remove the contradictory footnote wording in the MICF contracts. (c) Improving the tracking of annual call-off contracts and cumulative contract disbursements against long-term agreement approved ceiling amounts.

Weak payment processing and disbursement (Issue 6)	A sample of 26 payment vouchers with a total value of nearly $2.74 million (or 10.5 percent of the total value of all vouchers processed during the period under review) were reviewed. Out of that, 19 vouchers with total value of nearly $1.57 million (or approximately 57.3 percent of total value of the sample) were processed without adequate supporting documents and without evidence that a review of these vouchers took place before the payments were processed. Recommendation: The Office should strengthen payments and disbursement processing by: (a) updating and aligning standard operational procedures with the 'UNDP Programme Operations Policies and Procedures' for payment processing and disbursement with clear work and document flow coordination between the Programme and Finance Units customized to the Office's local business model; (b) processing payments and disbursements only when the necessary supporting documents, such as invoices, and copies of workplans confirming the activities being implemented as well as contract specific verification documents are provided with the voucher; and (c) filing of supporting documents with respect to payment processing in the Finance Unit.

Implementation status of previous OAI audit recommendations: Report No. 2028, 11 January 2019
Total recommendations: 9
Implemented: 9

Management comments and action plan

The Resident Representative accepted all seven 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.

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Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Lilongwe, Malawi was implementing the Country Programme covering the period 2019–2023 with the following development priorities:

a) Enhancing economic innovation, inclusive business, job creation and access to renewable energy.
b) Scaling up climate adaptation and resilience to shocks.
c) Strengthening effective, accountable, and inclusive governance that promotes civic engagement, respect for human rights, the rule of law, peace, and democracy.

During the period from January 2020 to March 2021, the Office spent $45 million on development activities, a decrease by 2 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan-Dec 2020 $million	Expenditure Jan-March 2021 $million
Private Sector Development	10.7	0.08
Malawi National Registration	7.29	0.46
Disaster Risk Resilience	4.42	0.18
Malawi Electoral Cycle Support	2.87	0.22
Modernised Climate Change	2.26	0.08
Total	**27.54**	**1.02**

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period $million
European Union	13.7
Multi Partner Trust Fund	2.5
Japan	2.3
Global Climate Fund	1.4
Total	**19.9**

Other critical information

Due to the COVID-19 pandemic, the Country went into lockdown from 15 April 2020 to 9 May 2020 with restriction of movement. During the period, staff members worked remotely.

II. Audit results

Satisfactory performance was noted in the following areas:

Administrative services. Controls and procedures on information communication and technology were found to be adequate.

Implementation modalities. The Office was not able to conduct a macro-assessment for the current programme cycle due to circumstances beyond its control and continued to be guided by the macro-assessment that was completed in 2016. This is permitted as stated in the 'UNDP Programme and Operations Policies and Procedures'. Assurance activities for the period under review could not be completed and as a mitigating measure the Office of Financial Management has instructed the Office to include these projects in the 2021 audit plan.

The assessment of performance audit questions was as follows:

(a) Development activities

1. Were development results being achieved effectively and was results monitoring based on pre-defined monitoring frameworks?

   Development results were not being monitored at the programme level. Although monitoring frameworks existed, data on indicators was not being collected and tracked. The Country Programme Document (CPD), which was incorporated in the UN Development Assistance Framework (UNDAF) was being implemented through joint annual workplans with other UN agencies and the Government. The monitoring and oversight functions of the UNDAF were not effective. There was no system in place to verify if development results were being achieved as planned (Issue 1).

2. Were development results being achieved within the budget and timeframe?

   It was not possible to determine if the Office was achieving development results because data collection and verification systems at the project level were not functioning. The audit team sampled four projects (Private Sector Development, Access to Justice, M-Climes and Disaster and Resilience) with total expenditures of $20.56 million, which represented 41.7 percent of programme expenditures incurred from 1 January 2020 to 31 May 2021. For all projects sampled, monitoring data was not collected, which made it impossible to determine if activities were achieving the development results (Issue 1).

(b) Procurement

3. Did procurement processes result in the contracting of required services and products in a timely manner and at best value for money?

   In general, the procurement process resulted in the contracting of required services and products in a timely manner. However, exceptions were noted. The audit team reviewed a sample of 32 purchase orders with a total value of $5.7 million representing 22 percent of the total procurement value. The sample was further extended to include all contracts ($5.7 million) for the fund manager for the Private Sector Development project – Malawi Innovation Challenge Fund (MICF), to bring the value of procurement transactions reviewed to $11.4 million.

   The procurement process that resulted in the selection of the fund managers for the Private Sector Development project did not demonstrate value for money, and competition was ineffective. The long-term agreement signed with the fund manager in 2020 had a contract value of $1.6 million. The same consultancy firm was engaged as fund manager under a series of three successive long-term agreements from 2014 to date, with cumulative annual call-off contracts issued totalling $5.7 million, of which $5.6 million was disbursed as professional fees at the time of the audit (Issue 3).

4. Were procurement cases processed with fairness, transparency, and integrity (by applying the UNDP guiding procurement principles)?

   The audit team noted two exceptions from a selected sample of 32 purchased orders with a value of $5.7 million involving two contract amendments that were approved irregularly.

   - In one contract with an initial contract value of $47,518, the amendment resulted in an increase of $170,879, making the amended total contract value $218,397. The amendment included more locations and health commodities; however, the initial contract terms of reference covered all facilities and commodities for Phase I. The contract amendment was approved despite several errors in the contract details. The Office issued another contract of services valued at $80,000 to the same vendor for a consultancy to support the technical partner in the drafting of a successor long-term national development strategy. The contract was subsequently cancelled at the request of the implementing partner due to poor performance.
   - In the second case, the original contract was $149,880 and the contract amendment resulted in an increase of approximately $29,480 to $179,360 without scope expansion (Issue 4).

(c) Finance

5. Were financial transactions processed timely and accurately?

   A sample of 26 payment vouchers valued at nearly $2.74 million (or 10.5 percent of the total value of all vouchers processed during the period under review) were reviewed. Systems that are designed to ensure the accuracy of payments were found to be deficient. Out of the selected sample, there were 19 vouchers with a total value of nearly $1.57 million (or approximately 57.3 percent of total value of the sample) in payments and disbursements were made without adequate supporting documentation and evidence that a review took place before the payments were processed (Issue 6).

(d) Human Resources

6. Was recruitment conducted in a timely manner?

   Recruitment was not undertaken in a timely manner. The Office had a turnaround policy of three months for the completion of recruitments. The audit team sampled 12 recruitment cases and noted that 2 cases took six months, and 1 case took eight months before the recruitment was finalized. Analysis of the remaining nine cases showed that there was only one case that met the three-month turnaround policy that the Office had set (Issue 7).

   From the selected sample of 12 recruitment cases, all selected candidates met the minimum requirements as stipulated in the vacancy announcement.

OAI made five recommendations ranked high (critical), and two recommendations ranked 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) Improve Country Programme oversight (Recommendation 1).
(b) Improve design and oversight of the Private Sector Development project (Recommendation 2).
(c) Strengthen contract management and accountability mechanisms (Recommendation 4).
(d) Strengthen payments and disbursement processing (Recommendation 6).
(e) Strengthen procurement processes (Recommendation 3).

Medium priority recommendations, arranged according to significance:
(a) Strengthen the recruitment process (Recommendation 7).
(b) Strengthen the maintenance of the vendor database (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Country Programme

Issue 1 Weaknesses in monitoring and oversight of Country Programme and Country Office projects

The 'UNDP Programme and Operations Policies and Procedures' state that appropriate monitoring and oversight mechanisms need to be established at the programme and project levels.

The Country Programme Document (CPD) was incorporated into the UN Development Assistance Framework (UNDAF), in which the following oversight mechanisms were established:

1. The Joint Steering Meeting (JSM) consisting of officials from the Government and United Nations agencies was responsible for overall oversight and accountability.
2. The Programme Management Team made up of UN agency deputies and senior programme staff was responsible for the implementation of the UNDAF programme.
3. The Monitoring Evaluation and Advisory Group (MEAG), which comprised of monitoring and evaluation staff from various UN agencies was tasked to provide support to the Programme Management Team in reviewing, reporting and evaluating UNDAF results.

The audit team noted the following:

1. The JSM was not providing overall oversight of programme implementation. The JSM met in 2019 and 2021; the 2020 meeting had to be postponed due to COVID-19. However, minutes of the meetings that took place did not include the review of the CPD. While the JSM received presentations by UN agencies on work done under the UNDAF development pillars, there was no evidence that the CPD was reviewed.
2. The mid-term review of the UNDAF (which also covers the CPD) included in the 2020 workplan was not carried out as the Programme Management Team and the MEAG had focused on preparing the 2020 annual review report.
3. There was no evidence of the work carried out by the MEAG for the current programme cycle. The group faced challenges with the participation of other agencies and showed weaknesses in collecting data. The audit team reviewed four Country Office projects (Private Sector Development, Access to Justice, M-Climes and Disaster and Resilience) with total expenditure of $20.56 million, which represented 41.7 percent of the programme expenditure of $49.2 million incurred from 1 January 2020 to 31 May 2021. The audit team noted that monitoring data was not

collected. A programme analyst stated that limited monitoring activities were undertaken largely due to budgetary constraints.

At the time of the audit, the Office had commenced the process of developing terms of reference for a mid-term review of the current CPD and had submitted the draft terms to the Independent Evaluation Office for review and approval.

The Office was approximately half-way through its five-year CPD and delivered $92.7 million out of a $151.68 million programme (61.4 percent); however, monitoring data was not sufficient to verify the results. It was not clear if the resources being used were working towards achieving planned CPD targets.

Priority	High (Critical)
Recommendation 1: To improve Country Programme oversight, the Office should: (a) ensure adequate oversight of the CPD, through a dedicated agenda item on the implementation of the CPD in the Joint Steering Committee or through a stand-alone programme board; and (b) develop a monitoring plan that includes the collection and verification of data to assess the level of progress related to the CPD and undertake a verification of all activities and results that have been reported.	
Management action plan The Office takes note of the recommendations and is commissioning a mid-term evaluation of the 2019-2023 Country Programme in August 2021, which is estimated to be completed by the end of October 2021. Formal requests have been made to enhance the JSM agenda including a dedicated agenda item for reviewing progress on the CPD by October 2021. The Office agrees that more work needs to be done to verify activities and outputs. The verification exercises including field visits will start by September 2021; however, COVID-19 and related travel restrictions will need to be taken into account.	

2. Project Administration

Issue 2 Weaknesses in design and oversight of Private Sector Development project

Project oversight should ensure the achievement of the outcome through regular reviews of results; this implies collecting progress data or verifying reported progress. An exit strategy is required at the design stage of the project to ensure the sustainability of the project after the project is closed.

The Office was implementing the Private Sector Development project, the current project with a budget of $33.9 million that started in 2019 and was planned to be finished in 2023. It followed the initial Private Sector Development project that was implemented from 2013 to 2017. The project defined three outputs: (1) innovation ideas referred to as Zvanchito; (2) business acceleration referred to as Growth Accelerator; and (3) innovation challenge referred to as the Malawi Innovation Challenge Fund (MICF). The project was the

largest project in the Office's portfolio, with total expenditure of $23.5 million since its inception in 2019. The project accounted for 24 percent of project expenditure between January 2020 and March 2021. The audit team noted the following:

- Verification of project progress reporting was inadequate. The Office shared that spot-checks of specific ventures were considered as adequate oversight. However, the audit team reviewed five spot-check reports and noted that four of these addressed operational issues such as reviewing shortlisted candidates and testing financial compliance. Only one spot-check was conducted to assess progress of a specific venture in the agricultural sector.

- The audit team also noted that the Office did not verify the reporting undertaken by the responsible party. The achievement of milestones for the growth accelerator part of the Private Sector Development project was verified by the responsible party. Although the Office was undertaking site visits and attending meetings on the various funded ventures, this did not verify the reporting done by the responsible party.

- The Private Sector Development project did not have a clearly defined exit strategy. While the missing exit strategy was noted in the evaluation of the initial Private Sector Development project from 2013 to 2017, the current project from 2019 to 2023 also excluded a clearly defined exit strategy.

The audit team noted capacity constraints in the oversight of the project. Three staff were available to review 59 grantee ventures of the Private Sector Development project. However, these staff were also responsible for the programmatic planning, resource mobilization and donor relations.

Weaknesses in the monitoring of project progress could lead to delayed or inaccurate reporting of actual achievements, limiting the possibilities for timely interventions. Without a clearly defined project exit strategy, project sustainability is not ensured.

Priority	High (Critical)
Recommendation 2: To improve the design and oversight of the Private Sector Development Project, the Office should: (a) increase the number of staff in the unit to strengthen oversight and allow verification of reporting by the responsible party to be effectively done; and (b) together with the relevant government ministry and other key stakeholders, devise an exit strategy that will ensure that project benefits are not lost, and that sustainability is achieved.	
Management action plan: (a) Recruitment of an additional two staff members is already under way. (b) The Office has noted the issue of the exit strategy and will expound further and comprehensively review the section of "Sustainability and Scaling Up" which captures elements of the exit strategy. **Estimated completion date:** 31 December 2021	

B. Operations

1. Procurement/Individual Contractors

Issue 3 Weaknesses in the procurement process

The Office should achieve fairness, transparency and value for money in the procurement process by maximizing competition and ensuring the impartial and comprehensive evaluation of solicited offers.

UNDP Financial Regulations and Rules (Rule 121.05) lists the eligible criteria for exceptions in the use of solicitation methods; it states that a directly negotiated contract should only be awarded to a qualified vendor whose offer substantially conforms to the requirements at an acceptable price.

The audit team reviewed a sample of 32 purchase orders with a total value of $5.7 million representing 22 percent of the total procurement value. The audit scope was extended to include all Private Sector Development project contracts, valued at $5.7 million, and all processed Private Sector Development project vouchers, bringing the total value of procurement transactions reviewed to $11.4 million.

The audit team noted the following issues in the procurement process related to the consulting firm that was providing the fund manager services of the Private Sector Development project:

- The Office engaged the same consultancy firm as fund manager since 2014 through three long-term agreements and eight annual call-off contracts with a cumulative disbursement of $5.6 million at the time of the audit.

- A review of the procurement process conducted in 2017 showed that the Office made a submission to the Regional Advisory Committee on Procurement (RACP) that included two technical compliant offers. The price offer for the current consulting firm was 50 percent higher than the other technically compliant offer. The Office resubmitted the case to RACP as direct contracting with a justification of urgency and a need for standardisation. The contract was then awarded to the same consulting firm. The audit team noted that fund management services for this project were not a standardized service, and standardization could therefore not be used as a permissible justification for direct contracting. The specific requirements for the fund manager services were highly specialized with a limited global marketplace. The Office did not conduct in-dept market research, nor did it follow RACP's advice to conduct an ex-ante review prior to launching a new procurement process to ensure that formal solicitation produced satisfactory results within a reasonable period.

By not demonstrating value for money of procured services, the Office is exposed to overpaying for services, impacting delivery with the available resources.

Priority	High (Critical)
Recommendation 3: The Office should strengthen procurement processes by: (a) conducting detailed, in-depth market research to ensure effective international competition for specialized services with a limited global market like the fund manager;	

(b) engaging the Regional Advisory Committee on Procurement in a timely manner for advice on complex, high-value procurement cases by requesting prior ex-ante review and justifying direct contracting based on correct permissible criteria under UNDP Financial Regulations and Rules; and
(c) confirming value for money against independent benchmarked information from other similar specialized services, if only one offer is technically qualified.

Management action plan:

(a) The Office will work with Bureau's Country Oversight and Support Team (COST) to get further guidance on this as well to scout the market for other similar specialized services to get value for money.
(b) The Office will continue to use the Regional Advisory Committee on Procurement where required for procurement of services in line with UNDP rules.

Estimated completion date: 28 February 2022

Issue 4 Weak contract management

Contract changes in price or scope after a contract is awarded are only allowed when the unit prices in the contracts are maintained. According to the 'UNDP Programme and Operations Policies and Procedures', the Procurement Unit is responsible for the drafting of contracts, and the manager responsible for signing the contract is expected to exercise due diligence by reviewing the accuracy of content before signing the contract. Offices are also expected to monitor the cumulative amount spent per vendor, and per calendar year, to ensure that cumulative amounts do not exceed approved long-term agreement amounts.

During the audit period, the Office processed 713 purchase orders valued at $26 million, of which 87 purchase orders totalling $9.6 million were posted to the Atlas (enterprise resource planning system of UNDP) account "grants." The audit team reviewed 32 purchase orders with a value of $5.7 million (representing 22 percent of the total procurement value).

(a) There were two irregular contract amendments that resulted from changing required procurement specifications after the award of contracts. The wording in the contract amendment cover pages appeared to be edited on top of existing contracts. One contract with an initial contract value of $47,518 was increased to $218,397. The signed amendment included incorrect names of the contracting party, an incorrect milestone schedule and did not include the authorized request from the implementing partner to increase the scope of deliverables. A second contract with an initial contract value of $149,880 increased to $179,360. The amendment was approved based on a Note to File but without a revised quotation showing new prices from the supplier and without scope expansion, which was not permissible by the 'UNDP Programme and Operations Policies and Procedures'. The two cases will be further assessed by OAI.

(b) The Office made use of an innovative funding instrument called the Malawi Innovation Challenge Fund (MICF) to disburse sizeable grants (between $150,000 and $850,000) to private sector entities. Challenge funding was a new area of work for UNDP when the MICF was first conceived in 2012. However, to date, sizable enterprise challenge funds are still not part of UNDP's programmatic instruments. Due to the uniqueness of the funding instruments, the Office consulted UNDP Headquarters in November 2013 on provisional operational modalities for administering the MICF within the existing UNDP policy frameworks. In November 2013, the then UNDP Bureau of Management/Procurement Support Office (BOM/PSO) (now the Bureau for Management Services) and the Advisory Committee on Procurement (ACP) in New York provided options for the implementation of the MICF within the existing policies of UNDP with a procurement process for the selection of

grantees under the MICF (even though MICF does not procure goods or services in a conventional sense). In February 2014, the BOM Director approved an increased delegation of procurement authority up to $300,000 to the Head of the Office in Malawi to approve MICF cases. Cases exceeding $300,000 were submitted to the Regional ACP for oversight per usual procurement thresholds. In May 2014, negotiations started with the then Legal Support Office (now the Office of Legal Services) at Headquarters to adapt the existing UNDP Contract for Professional Services to the needs of the MICF. The Country Office and the Office of Legal Services developed a custom contract template to engage private sector entities. However, the template was not compatible with the substance and nature of the agreement between the parties. The contract was adopted from a 'Contract for Services' template while the nature of the agreement was a performance-based grant involving testing and implementing innovative project concepts in Malawi. The contract also contained a contradictory footnote that stipulated that the contract was not to be used for procuring goods or works; however, the contract permitted the purchase of equipment by third party contractors. Vague or unclear contract wording can lead to more than one interpretation of the contract and make it difficult to enforce contract terms and conditions. Effective 28 November 2015, UNDP introduced a new policy for innovation challenges and civil society organization engagement that was a low cost grant instrument that allowed the award of innovation prizes to the winner(s) of up to $40,000. Prizes exceeding this amount needed approval from the BOM/Chief Procurement Officer. The new UNDP innovation challenge policy had many differences compared to the procedures and legal clauses already adopted by the MICF. The MICF had a unique design as matching performance-based grant instruments with a particular focus on inviting private sector solutions to be implemented in Malawi and did not lend itself to be aligned to the new policy, so it was not applied to the MICF. At the time of introduction of the new policy, the MICF already had a portfolio of ongoing projects with contracts that stretched over the next two to three years and the Office continued to use the normal procurement procedures, a modified legal 'Contract for Services' and standard operating procedures specifically developed for use by the MICF. To date, no specific programmatic instrument and model contract for performance-based grants for sizable enterprise challenge funds to the private sector exists in UNDP.

(c) The audit team noted deficiencies in the Private Sector Development project fund manager long-term agreement, specifically:

i. The fund manager contract amendments' timeframes overlapped due to errors with dates or had gaps with no contracts in place.
ii. The total value of contracts with the consulting firm from the start of the first engagement in 2014 to June 2021 exceeded the total long-term agreement value by approximately $240,006.
iii. The fund manager contract was a new concept for UNDP, and the contract was not well designed. The scope expanded with additional responsibilities and deliverables as well as changes to the portfolio that resulted in 11 contract amendments to the annual call-off contracts over the lifetime of the MICF fund.

Weaknesses in contract management could lead to a failure in delivering the contractual obligations and loss of funds.

Priority	High (Critical)
Recommendation 4: The Office should strengthen contract management and accountability mechanisms by: (a) enforcing due diligence when approving contract amendments, specifically verifying the accuracy of content information, which includes references, names, signatures, and milestone schedules;	

(b) discontinuing the MICF contract template and with the support of the Office of Legal Services, work out a proper contract model for challenge fund performance grants, that if used in the future, will support the true intention and actual substance behind it and remove the contradictory footnote wording in the MICF contracts; and (c) improving the tracking of annual call-off contracts and cumulative contract disbursements against long-term agreement approved ceiling amounts.
Management action plan: The Office has taken note of the recommendation and will: (a) ensure accuracy in referencing, names, dates and signatures; and (b) reach out to the legal office for further guidance in relation to the contract being used. **Estimated completion date:** 31 May 2022

2. Finance/Vendor Accounts

Issue 5 Inadequate maintenance of vendor database

Offices are required to conduct a quarterly clean-up and maintenance of the vendor database.
At the time of audit, in June 2021, the Office had 2,314 active vendors, of which 26 shared the same bank account with one other vendor. Out of the 26 vendors, 11 were duplicate vendors created between January 2020 and February 2021.

The audit team noted weaknesses in the process of approving vendors, quarterly clean-up, and maintenance of the vendor database.

Without an accurate vendor database, the Office is at risk of making incorrect payments to vendors.

Priority Medium (Important)
Recommendation 5: The Office should strengthen the maintenance of the vendor database by complying with standard operating procedures for vendor management by: (a) ensuring that vendor database clean-up and maintenance processes are conducted quarterly; and (b) ensuring that vendors do not already exist in Atlas before creating new vendors.
Management action plan: (a) The Office appointed a focal point who does database clean-up and maintenance processes monthly since January 2021 and will continue to monitor the process. (b) The Office is fully utilizing the vendor standard operating procedures developed by GSSU and will monitor that no duplicate vendors exist in the database. **Estimated completion date:** 31 December 2021

Issue 6 Weak payment processing and disbursement

Payment justifications must be attached to a voucher. These can include invoices, signed receipts of goods, copies of contracts, account statements or project workplans to indicate the activity that is being paid.

A sample of 26 payment vouchers with a total value of nearly $2.74 million (or 10.5 percent of the total value of all vouchers processed during the period under review) were reviewed. Out of that, 19 vouchers with a total value of nearly $1.57 million (or approximately 57.3 percent of total value of the sample) were processed without adequate supporting documents and without evidence that a review of these vouchers took place before the payments were processed. According to management, in the case of MICF payments, fund manager reports including expenditures were received and filed by programme unit staff. The normal process would be to send expenditure reports to Finance for filing. Based on the reports, the project manager would prepare certification for work done and request Finance to process payment. Finance processed payments based on the certification memo from the project manager but did not review supporting documents or enquire about them. The audit team noted the following:

(a) Twelve vouchers with total value of approximately $668,000 (or 42.6 percent of total value of vouchers reviewed) were missing payment justifications such as original invoices, a copy of the contract with the supplier, or proof of physical receipt of goods.

(b) Five vouchers with a total value of nearly $763,000 (or 48.6 percent of total value of vouchers reviewed) that were advances to implementing partners where either the FACE was a copy, the FACE form was not attached to the voucher, or the authorized amount could not be reconciled with the amounts in the attached workplan.

(c) All payments to MICF contractors including local contractors were made in US dollars without proper authorization by Treasury. The sample contained seven vouchers with a total value of nearly $825,227 where local payments for MICF were made in US dollars. After the audit, the Office requested a post facto foreign exchange exemption from Treasury. The exemption was granted in relation to existing contracts with a specific provision from Treasury that all new contracts must be paid in the local currency.

Weaknesses in the processing of payments could lead to fraud and embezzlement and will negatively impact the reputation of UNDP.

Priority High (Critical)
Recommendation 6: The Office should strengthen payments and disbursement processing by: (a) updating and aligning standard operational procedures with the 'UNDP Programme Operations Policies and Procedures' and financial regulations for payment processing and disbursement with clear work and document flow coordination between the Programme and Finance Units customized to the Office's local business model and enforcing its use; (b) processing payments and disbursements only when the necessary supporting documents, such as invoices, and copies of workplans confirming the activities being implemented as well as contract specific verification documents are provided with the voucher; and (c) filing of supporting documents with respect to payment processing in the Finance Unit.

Management action plan:

(a) The Office will update its current standard operating procedure to strengthen procedures on payment processing and to develop a capacity-building plan for Office personnel (programme & operations).

(b) The Office will ensure that all payments and disbursements are paid when supporting documents are made available; however, it must be noted that the Office has been filing the documents separately. The Office will ensure that the finance office keeps all relevant documents on file.

(c) The Office will improve filing of supporting documents for all payments.

Estimated completion date: 31 December 2021

3. Human Resources/Recruitment of Staff

Issue 7 Protracted recruitment processes

Recruitment should be timely to ensure that projects are sufficiently staffed to achieve the intended results. The Office has defined an internal policy that requires that recruitment should be finalized within three months. The Office also requires that the following information be available to initiate recruitment: required start date, terms of reference, and an indication on whether there is sufficient budget for the position.

The audit team reviewed a sample of 12 recruitments out of the 48 recruitments during the audit period (6 fixed-term appointments and 6 service contracts). The review identified two recruitments that took six months and one recruitment that took eight months to be finalized. Analysis of the remaining nine cases showed that there was only one recruitment that took place within the three months.

The Office shared that recruitment cases were delayed due to the unavailability of the compliance review panel members and funding shortages.

The Office has a form that is completed to initiate the recruitment process by the requesting unit. Information required on this form includes required start date, terms of reference and an indication of the available budget for the position to be advertised. All sampled recruitment cases had this form in which the required data should be included; however, information was not consistently completed. Management who signed off on these requests were not checking to ensure that all required information had been provided.

Inconsistent and prolonged recruitment processes increase the risk that the most qualified candidate will not be identified and selected.

Priority Medium (Important)

Recommendation 7:

The Office should strengthen the recruitment process by ensuring:

(a) that forms that are being used by the Office to initiate requests for recruitment are fully completed, showing required start dates and terms of reference, and;
(b) that adequate resources are available for the positions prior to commencing recruitment.

Management action plan:

In light of the audit recommendation the Office has, with effect from 1 July 2021, updated and circulated a standard operating procedure clearly stressing the responsibilities of the human resource unit and managers in the process. The standard operating procedure has been shared with all personnel in the Office to ensure everyone is aware of the timelines and the benchmarks required.

Furthermore, the Office introduced an Excel tracking sheet on recruitments, which was shared with the Senior Management Team on a weekly basis as a monitoring tool after recognizing the delays being faced in recruitments.

Estimated completion date: 28 February 2022

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully Satisfactory** — The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Satisfactory / Some Improvement Needed** — The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** — 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.
- **Unsatisfactory** — The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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 risks. Failure to take action could result in 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 not included in this report.