



AUDIT

OF

UNDP COUNTRY OFFICE

IN

MALAWI

Report No. 2303
Issue Date: 29 September 2021

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

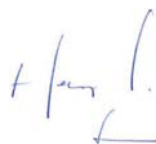
Implemented: 9

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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