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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN MALAWI

FINAL REPORT
N^{o} MWI-101

24 November 2014

TABLE OF CONTENTS

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Malawi (the Office) which started on 7 April 2014. The audit covered the period from 1 January to 31 December 2013. Programme delivery and operations activities executed in previous years and in 2014 were covered by the audit, as appropriate.

Background

2. The activities covered by the audit correspond primarily to the second year of the seventh Country Programme 2012-2016, approved by the Executive Board in its first regular session 2012, with indicative resources of USD 52.0 million. Expenses incurred in 2013 covered by the audit amounted to USD 12.1 million, allocated to 15 projects executed by 27 implementing partners (USD 2.2 million) and by UNFPA (USD 9.9 million) funded from core resources of USD 3.7 million and non-core resources of USD 8.4 million. In addition, the audit covered expenses incurred in 2012 amounting to USD 0.9 million.

3. Approximately 60 per cent of the expenses incurred in 2013 correspond to the Reproductive Health component, with focus on increasing access to equitable and quality essential health services and to gender-sensitive HIV prevention services, especially for key populations. The Gender component accounted for 27 per cent of expenses and focused on building the capacity of national institutions to advance gender quality and the status of women. The Population and Development component accounted for 5 per cent of expenses, with focus on national policies and public behavior responsiveness to population dynamics for sustainable development. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 8 per cent of expenses[1]. Expenses incurred in 2012 covered by the audit corresponded primarily to the supply of reproductive health commodities and equipment.

Methodology and scope

4. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal control processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

5. The scope of the audit included the review of the Office's governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships and information technology.

Audit rating

6. The audit indicates that, for the period covered, the risk management performance of the Office was '**Partially Satisfactory**', which means that internal controls, governance and risk management processes were adequately established and functioning well but one or more issues were identified that may negatively affect the achievement of the objectives of the audited entity. Ratings by key audit area are summarized in the following page.

[1] Source: Cognos project monitoring reports for the year ended 31 December 2013.

Audit ratings by key audit area	
Office Governance	**Partially satisfactory**
Office management	*Partially satisfactory*
Organizational structure and staffing	*Partially satisfactory*
Risk management	*Partially satisfactory*
Programme Management	**Partially satisfactory**
Programme planning and implementation	*Satisfactory*
National execution	*Partially satisfactory*
Inventory management	*Partially satisfactory*
Management of non-core funding	*Satisfactory*
Operations Management	**Partially satisfactory**
Human resources management	*Satisfactory*
Procurement	*Satisfactory*
Financial management	*Unsatisfactory*
General administration	*Satisfactory*
Information and communications technology	*Satisfactory*
Security management	*Satisfactory*

Key findings and recommendations

7. The audit identified a number of good practices implemented by the Office as well as areas that require management attention, some of a strategic nature, and other related to operational and compliance matters and reporting. Overall, the audit report includes 6 high priority and 11 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 17 recommendations, 3 are of strategic nature; 10 are operational; 2 refer to compliance matters; and 2 are related to reporting. The audit noted, however, a significant improvement in comparison to the situation identified by the previous audit performed in April 2010 that resulted in an unsatisfactory audit rating.

Good practices

8. The audit identified several good practices adopted by the Office, some of which could be considered for replication by other offices. Regular programme and operations staff meetings were held to enhance coordination of Office and programme activities. Clear and comprehensive knowledge transfer notes were prepared and shared upon retirement of the Representative. The Office actively participated in the Delivering-as-One governance bodies, and established "Learning Afternoons" to enhance staff knowledge on UNFPA's policies and procedures and other Office related matters. The 2014 planning process was initiated early, allowing for a timely finalization of annual work plans between mid-January and early February 2014. The 2014 annual work plans budgets were clearly documented, broken down by key input required to execute the activities and the assumptions (quantities and unit costs) used to estimate the amounts budgeted. Customs clearing activities were initiated two months before the arrival of the good procured, thereby allowing for a timely clearing and the reduction of demurrage charges. Relevant annual work plan sections were included in procurement files to allow for a better trail and linkage to procurement actions. The human resources files were well documented and kept.

Strategic level

9. At the strategic level, there is a need to improve the alignment and relevance of Office Management Plan outputs, activities and indicators. In addition the Office should expedite the finalization of its programme alignment plan to UNFPA's Strategic Plan 2014-2017, which should include the definition and monitoring of relevant output indicators and targets related to commodity availability, and periodically update the fraud risk assessment to reflect the impact of significant internal and external changes that may take place throughout the programme cycle.

Operational level

10. There is a need for the Office to improve the review and reporting process over its management plan and to strengthen the planning and implementation of training activities of its personnel. In addition, the Office needs implement a tool to allow for a more effective tracking and reporting of monitoring visit findings and recommendations. Implementing partner capacity to execute UNFPA funded projects should be revisited whenever organizational and operational changes take place within the implementing partner, and financial monitoring of implementing partners enhanced, particularly in those areas impacted by recurring recommendations from audits of implementing partners. Of particular importance, the Office should regularly monitor commodities distribution and availability levels, given their importance towards achieving the Country Programme goals in the areas of maternal health and family planning. Finally, there is a need for the Office to improve valued-added tax management by ensuring that the tax is properly recorded and periodically reviewed, to claim reimbursable amounts.

Compliance level

11. In relation to inventory management, there is a need to document the receiving and inspection process for all inventory purchases. In addition, the Office should regularly complete and submit the financial accountability checklists to the Finance Branch at Headquarters.

Reporting level

12. The Office should continue to review and monitor the financial accounting process to ensure that financial transactions are charged to the appropriate accounts, therefore improving financial reporting and the use of financial information for monitoring. Further, the Office should prepare Operating Fund Account balance reconciliations on a quarterly basis.

<u>*Management response*</u>

13. Management of UNFPA Malawi Country Office agrees to the audit findings and observations and has developed appropriate remedial plans/actions to address the audit observations. Also, this will guide future performance and capacity upgrading of staff.

14. The OAIS team would like to thank the Management and personnel of the Office, the East and Southern Africa Regional Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January to 31 December 2013. Programme delivery and operations activities executed in previous years and in 2014 were covered by the audit, as appropriate.

2. The objective of the audit, conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes implemented for UNFPA's operations in Malawi.

3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:

a) The effectiveness and efficiency of the Office's operations;
b) The conformity of expenses with the purposes for which funds were appropriated;
c) The safeguarding of assets entrusted to the Office;
d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
e) The reliability of the Office's financial and operational reporting.

4. The scope of the audit included the review of the Office's governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.

5. The engagement was conducted by a team of OAIS audit specialists supported by staff from an external audit firm, starting on 7 April 2014. A field mission took place from 2 to 27 June 2014. The findings and recommendations resulting from the audit were discussed with the Office Management at an exit meeting held on 24 June 2014. Comments and clarifications were provided by Management until 26 September 2014 and were reflected in a draft report submitted to the Office Management on 3 November 2014, and a final Management response received on 21 November 2014.

II. BACKGROUND

6. Malawi has a population of 13.1 million, with an annual growth rate of 2.8 per cent[2]. The economy is heavily focused on agricultural activities, with a largely rural population. The Country has experienced significant macroeconomic growth in recent years. However, 39 per cent of the population still lives in poverty, which is particularly severe among female-headed households and in rural areas[2]. The Malawian government depends heavily on international aid to meet development needs.

7. The maternal mortality ratio stood at 460 deaths per 100,000 live births in 2010, compared to 840 deaths per 100,000 births in 2000[3]. The infant mortality rate declined from 76 to 66 deaths per 1,000 live births between 2004 and 2010 and under five mortality from 133 to 112 deaths per 1,000 live births during the same period. The national HIV prevalence rate among the general population stands at 12 per cent since 2007. Women and girls have higher infection rates than men, and are more often affected at younger ages. The UNDP gender equality index was 0.374 in 2009, one of the lowest in the world[2].

8. The activities covered by the audit correspond primarily to the first and second year of the seventh Country Programme 2012-2016, approved by the Executive Board in its first regular session 2012 with indicative resources of USD 52.0 million. Expenses incurred in 2013 covered by the audit amounted to USD 12.1 million, allocated to 15 projects executed by 27 implementing partners (USD 2.2 million) and by UNFPA (USD 9.9 million)[4], funded from core resources of USD 3.7 million and non-core resources of USD 8.4 million. In addition, the audit covered expenses incurred in 2012 amounting to USD 0.9 million.

9. Approximately 60 per cent of the expenses incurred related to the Reproductive Health component, with focus on increasing access to equitable and quality essential health services and to gender sensitive HIV prevention services, especially for key populations. The Gender component accounted for 27 per cent of expenses and focused on building the capacity of national institutions to advance gender quality and the status of women. The Population and Development component accounted for 5 per cent of expenses, with focus on national policies and public behavior responsiveness to population dynamics for sustainable development. Costs funded from the Institutional Budget and programme coordination and assistance costs, no allocated to any of the above thematic areas, accounted for the remaining 8 per cent of expenses[4]. Expenses incurred in 2012 covered by the audit corresponded primarily to the supply of reproductive health commodities and equipment.

10. As part of the "Delivering-as-One" initiative, the Office has worked closely with other United Nations organizations to deliver integrated solutions for youth reproductive health, streamlined HIV and AIDS prevention and maternal mortality prevention. UNFPA is the leading agency for two United Nations Development Assistance Framework outcomes (HIV and AIDS prevention and Population), chairs several working groups and participates as an implementing agency for eight other outcomes.

11. The UNFPA Office is located in the city of Lilongwe. During the period under review, the Office was managed by a Representative (until his retirement in July 2013) and by a Deputy Representative (from August 2013 until the date of the field audit mission), assisted by an Assistant Representative and an Operations Manager (this position remained vacant from February 2014 until the time of the field audit mission).

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[2] Country Programme Document for Malawi (2012-2016).

[3] Information obtained from the publication "Trends in Maternal Mortality 1990 to 2010-WHO, UNICEF, UNFPA and the World Bank Estimates".

[4] Source: COGNOS project monitoring reports for the year ended 31 December 2013.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE	PARTIALLY SATISFACTORY

Good practices identified

12. The audit identified the following good practices in the area of Office governance, which are in line with established policies and procedures:

a) Continuous coordination and monitoring mechanisms for the oversight of Office activities were in place. In particular, regular programme and staff meetings were held;

b) Clear and comprehensive knowledge transfer notes were prepared upon retirement of the former Country Representative and shared with the designated officer-in charge;

c) The Office used 'Learning Afternoons' to enhance staff knowledge of UNFPA's policies and procedures and other Office management related matters; and

d) The Office participated actively in Delivering-as-One (DaO) governance bodies. At the time of the field audit mission, UNFPA led the outcomes relative to HIV and AIDS prevention, and Population, and chaired the HIV prevention; human rights; population and data; and sexual and reproductive health working groups (the gender working group was chaired by UNFPA until February 2013).

A.1 – OFFICE MANAGEMENT	PARTIALLY SATISFACTORY

13. Audit procedures performed in this area included the review of (i) the Office's planning process; (ii) the relevance and level of implementation of the 2013 Office Management Plan (OMP); (iii) the alignment of the performance plans of key personnel to the Office's priorities; (iv) the effectiveness of management's oversight of programme delivery and operational activities; (v) the accuracy of the 2013 Office's annual report; and (vi) the level of familiarization of the Office's personnel with UNFPA's policies and procedures.

14. Based on the audit work performed in this area, the audit noted several areas that need management attention as highlighted below.

Enhance the Office management planning process

15. The Office timely finalized its 2013 and 2014 OMPs, including mandatory activities as well as office-defined outputs and activities. The audit noted, however, instances of misalignment of outputs, activities and indicators which could limit the usefulness of the OMP as a management planning and oversight tool. For example, the three activities (annual staff retreat; monthly staff meetings; and support to UN Cares activities) linked to the 2014 OMP output '*Appropriately staffed UNFPA with high performing professionals able to implement the new Strategic Plan*' can only contribute marginally to the achievement of this output. Further, the OMP output indicator ('Percentage of staff completing their Performance Appraisal Development [PADs] on time') is not relevant to the output and not related to the activities defined.

16. The audit also noted that some significant activities were not incorporated in the OMP, including those related to signature of Letters of Understanding, assessment of the capacity of implementing partners (IPs), and development and signature of work-plans.

17. Finally, the audit noted that OMP activities were consistently and clearly reflected in individual performance plans of activity team leaders, unlike those of activity team members for which misalignments were noted for 11 out of 18 OMP activities tested.

IMPACT	*Diminished management ability to oversee the Office's programmatic and operational activities.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Strategic.*

RECOMMENDATION 1 ***PRIORITY: MEDIUM***

Thoroughly quality-assure Office Management Plans for relevance; completeness of outputs; adequacy and alignment of indicators and activities to defined outputs; and alignment to individual performance plans.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS**:** *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/03/2015*

The Office staff and supervisors reviewed the 2014 OMP during the mid-year review and ensured alignment of indicators to activities and defined outputs. Supervisors provided required oversight and monitoring. All individual PADs of team member's activities and outputs are now aligned to the OMP. The new guidelines of migration of outputs from the OMP to individual staff PADs developed by HQ will facilitate the process.

Improve the Office Management Plan review and reporting process

18. The Office timely completed the 2013 OMP mid-year and year-end reviews, measuring and reporting progress against the output activities and indicators included therein. At mid-year, *'completed'* status was reported for 3 out of 32 activities included in the OMP, while '*progressing as planned'* status was reported for another 28 activities ('*no progress to date' status was reported for one activity*). The audit noted, however, that the year-end review reported '*not completed*' or '*partial completion'* status for 5 of these 28 OMP activities, suggesting that the mid-year review was not sufficiently rigorous. Measurement of progress at mid-year may have been hindered by the lack of definition of clear milestones for that period.

19. Management explained that low programme implementation during the second half of the year was the main reason for the lack of completion of the activities that were otherwise progressing well at mid-year. It should be noted, however, that the audit noted the same issue for three 2012 OMP activities. Further, Management indicated that the OMP mid-year and year-end implementation status was discussed and determined during dedicated programme staff meetings, as well as documented in the OMP application. The discussions were not, however, sufficiently documented. Specifically, assigned progress status was not substantiated by documenting actual achievements against baselines, milestones and targets.

20. Finally, the audit noted four instances of discrepancies in the OMP where the 2014 baseline is lower than the achievement reported in 2013 for the same indicator. Management could not explain the discrepancies.

IMPACT	*Diminished management ability to take informed corrective action in a timely manner.*
ROOT CAUSE	*Guidelines (Absence of written procedures to guide staff in performing their functions) and Guidance (Inadequate supervision at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 2	***PRIORITY: MEDIUM***

Define clear milestones for each Office Management Plan activity. Substantiate and document progress status reported in the mid-year and year-end reviews, and review results reported for accuracy.

RESPONSIBLE MANAGER: *Representative, Malawi* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *15/02/2015*

For each OMP activity milestones were defined in 2014 mid-year review. The process was documented and the Office is working towards finalization of guidelines to define milestones for each OMP output, activity baseline and target and initiated documentation process to capture OMP progress status. Those are to be used in developing 2015 OMP.

Promptly finalize the UNFPA Strategic Plan 2014-2017 alignment plan

21. UNFPA offices are expected to align their programmes to the UNFPA Strategic Plan 2014-2017 by December 2015. As initial milestones in the alignment process they were required to (i) develop alignment plans, to be documented under an Strategic Plan alignment output reflected in the 2014 OMP, due 30 April 2014; and (ii) align their programme results frameworks to the new Strategic Plan Integrated Results Framework by June 2014.

22. At the time of the field audit mission (June 2014), the Office's Strategic Plan alignment plan had not yet been finalized. Management informed that the delay was attributed to the time spent in preparations for the OAIS audit and that the alignment plan would be completed without further delay.

IMPACT	*Lack of alignment of the Office's programme to the UNFPA strategic plan may impact the achievement of the strategic plan's outcomes.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Strategic.*

RECOMMENDATION 3	***PRIORITY: HIGH***

Promptly complete the Strategic Plan alignment plan, leveraging on available support resources, such as the Strategic Plan alignment toolkit.

RESPONSIBLE MANAGER: *Representative, Malawi* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *31/12/2014*

Management organized three training sessions on strategic alignment process for staff. The Office used the Strategic plan alignment tool kit; the webinars arranged by HQ and consulted available examples. Furthermore, two programme officers attended a Regional Training on M&E consultation where strategic alignment was part of the agenda. They also exchanged experiences on alignment process with other countries. Upon their return, the trained programme officers shared the knowledge gained during a one-day session on the subject. The Strategic Plan alignment process is at an advanced stage and is expected to be finalized by end of 2014 according to the target in the OMP.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING	**PARTIALLY SATISFACTORY**

23. At the time of the field audit mission, the Office had a total of 32 posts, including three international posts (Deputy Representative and Representative a.i., Reproductive Health Technical Advisor, and Gender Technical Advisor), 23 national posts, and six posts covered by contract personnel. Following the Representative's retirement in July 2013, the Office was managed by the Deputy Representative. The recruitment for the new Representative was ongoing at the time of the field audit mission.

24. Audit work performed in this area included a review of (i) the alignment of the organizational structure and staffing arrangements in place with the requirements for the delivery of the Office's programme and operational activities; (ii) the use of proper contractual modalities; (iii) the effectiveness of the performance assessment process; and (iv) the relevance and sufficiency of staff development activities conducted during the period under review.

25. Based on the audit work performed in this area, the audit noted two matters that require management attention.

Timely fill vacancies in management positions

26. The Country Representative and the International Operations Manager positions (two of the four approved Management posts) were vacant at the time of the field audit mission. The previous Representative retired in July 2013, and the position remained vacant from August 2013 throughout the time of the field audit mission. During this period, the Deputy Representative was responsible for managing the activities of the Office. According to information provided by management, the post was part of the 2013 rotation exercise, but could not be filled. The post was therefore included in the 2014 exercise. A new Representative has been selected and cleared by the host Government at the time of issuance of this report.

27. Starting 2014, the Operations Manager's position, until then a national one, became an international one. The contract of the then National Operations Manager ended in February 2014. The new positon was filled in August 2014, with a candidate selected from UNFPA's Leadership Pool. In the interim, the Office relied on existing staff members to manage its operations (i.e. financial management, procurement, human resources, etc.), thereby significantly increasing staff workload and diminishing supervision over their work. Staff workload was further increased by the shift to the direct payment modality for cash transfers to mitigate the higher risk posed by a large scale financial fraud scheme involving misappropriation and misuse of public funds by national civil servants.

28. The audit noted a number of control issues discussed in the different sections of this report, for example, those related to the Office management planning and reporting processes, fraud risk assessment, miscoding of expenses, Operating Fund Account (OFA) balance reconciliations, and timely submission of financial accountability checklists which could be attributed to lack of supervision due to prolonged vacancies of management positions. However, no recommendation is provided as regards this matter given the progress made towards filling these vacancies prior to the issuance of the final report.

IMPACT	*The effectiveness of programme delivery and operations may be diminished by lengthy vacancies in key positions.*
ROOT CAUSE	*Guidance (Inadequate supervision at Headquarters and Regional Office level).*
CATEGORY	*Operational.*

Strengthen training activities' planning and implementation

29. The audit noted that only 2 out of 26 individuals completed the planned trainings included in the Office's 2013 annual training plan. Per the Office Management, the majority of training activities were not undertaken due to a lack of financial resources.

30. The audit noted that the 2013 training plan was not approved until 26 July 2013, limiting the time available for its implementation. Further, activities included therein were not costed to help prioritize them and allocate the necessary resources. Additionally, the audit noted instances of a lack of alignment between the training plan and the development needs included in the staff performance plans as regards planned training activities and status of completion thereof.

31. The audit also noted a number of control issues which could be attributed to insufficient training, e.g., lack of compliance with the requirement to document inventory receipt and inspection, or miscoding of transactions, which are elaborated in different sections of this report.

IMPACT	*The Office's performance may be impacted by personnel capacity gaps.*
ROOT CAUSE	*Resources (Insufficient resources) and Guidance (Inadequate supervision at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 4 ***PRIORITY: MEDIUM***

Timely complete costed annual training plans, align it with development needs identified in staff performance plans, and prioritize training activities taking into account programme delivery and operations management needs, as well as availability of funding.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30/04/2015*

The 2014 training plan was reviewed at mid-year and aligned to training needs. Management will ensure the alignment of training plans to PAD's development plans. The Office will continue to encourage staff to use the various opportunities for training availed by UNFPA. These include applications to trainings funded by the Division for Human Resources, free web-based trainings and the rational use of available in-country resources to support trainings based on cost efficiencies. Finally, management will seek additional funding from HQ to support staff trainings. Management will endeavor that training plans have indicative budget.

A.3 – RISK MANAGEMENT **PARTIALLY SATISFACTORY**

32. Audit work performed in this area consisted in the review of the Office's last fraud risk assessment, the process followed for identifying risks, and the actions undertaken to mitigate them. The audit also included tests of a sample of key controls identified by management in the risk assessment, for implementation and operating effectiveness.

33. Based on the audit work performed in this area, one issue was identified that needs Management attention.

Update the fraud risk assessment

34. A fraud risk assessment was last prepared in March 2013. The assessment documented, by business area, potential fraud risks, inherent risk[5] ratings, control activities to be implemented and residual risk[6] ratings. No risk factors were assessed as having a 'High' residual risk or requiring immediate management attention. The audit noted that the assessment identified several risks related to the potential misuse of programme funds by implementing partners (IPs); the assessment also included the controls on which the Office management relies to mitigate these risks, which consisted mainly of conducting IP capacity assessments and performing quarterly monitoring visits and spot checks. It should be noted that testing performed by the OAIS team, as discussed in section B.2 of this report, revealed some gaps in the operating effectiveness of these controls throughout the period under review.

35. The audit noted that the assessment was not updated in 2014. Consequently, the risks related to the large scale financial fraud scheme mentioned in paragraph 27 and its potential impact were not reflected in a revised fraud risk assessment. Management, however, took action to mitigate the increased risk level, mainly by shifting, from the second quarter of 2014, to the direct payments modality for funding activities to be implemented by the main Government IP.

IMPACT	*Inability to identify and mitigate risks in a timely and effective manner.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Strategic.*

RECOMMENDATION 5 ***PRIORITY: HIGH***

Continuously review the fraud risk assessment and update it as deemed necessary and at least on an annual basis considering significant changes in fraud risks, and their impact and likelihood.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS**:** *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/12/2014*

Management will continuously review and update the fraud risk assessment. A fraud risk assessment training will be organized in December 2014 as part of the Delivering-as-One initiative. The Office will participate with relevant staff. Knowledge gained will be used to update the UNFPA Office fraud risk assessment.

B. PROGRAMME MANAGEMENT — PARTIALLY SATISFACTORY

Good practices identified

36. The audit identified the following good practices adopted by the Office in the area of programme management, which are in line with established policies and procedures:

a) The 2014 planning process was initiated early, allowing for a timely finalization of work-plans by early February 2014;

b) The 2014 workplans clearly reflected budgets for all key inputs required to execute the activities and documented the assumption (quantities and unit costs) used to estimate the budgets; and

[5] Inherent risk: risk existing prior to any risk mitigation measures are put in place.

[6] Residual risk: Risk remaining after mitigation measures and controls thereon have been put in place.

c) The inventory customs clearing process was initiated two months before the arrival of the goods procured thereby ensuring a timely release of the goods and lower demurrage costs. This practice could be considered for replication to other Offices.

B.1 - PROGRAMME PLANNING AND IMPLEMENTATION	SATISFACTORY

37. During the period under review, the Office implemented activities related to seven programme outputs for a total cost of USD 11.4 million, inclusive of Programme Coordination and Assistance (PCA) costs, with an overall financial implementation rate of 77 per cent (measured based on budgets allocated in Atlas). The Office programme covers all three regions of Malawi (North, Central and Southern regions), with a focus on 13 of the 28 districts. Of the 13 districts, five are located in the Southern region, with the other eight divided equally between the North and Central regions. The implementation was managed through 24 different work-plans.

38. Activities were implemented directly by UNFPA, with related expenses of USD 9.2 million (81 per cent of total programme implementation expenses) and a financial implementation rate of 84 per cent, and by 27 implementing partners (IPs), with related expenses of USD 2.2 million (19 percent of total programme implementation expenses) and a financial implementation rate of 73 per cent. A large component of UNFPA's direct execution corresponded to the procurement of reproductive health commodities at a cost of USD 4.2 million in 2013 and USD 0.9 million in 2012 (refer to section B.3 of the report for details).

39. Audit work performed in this area focused on five projects with aggregate expenses of USD 8.8 million in 2013 (77 per cent of total programme implementation expenses) and included (i) the review of a sample of five of the largest work-plans related to the projects selected; (ii) the assessment of the process followed to prepare, cost and approve the work-plans and monitor their implementation; and (iii) the review of standard progress reports, work-plan progress reports, monitoring reports and other evidence of programme implementation, including site visits to three districts where programme activities have been implemented.

40. Programme implementation in 2013, particularly for activities funded from non-core resources (which reflected an overall financial implementation rate of 71 per cent, compared to 93 per cent for activities funded from core resources) was adversely impacted by factors outside the control of the Office. These included the fraud scheme previously mentioned, as well as delays in the submission of documentation supporting expenses reported by IPs that prevented the Office from making additional cash transfers to the concerned IPs until the documentation had been received and reviewed. Similarly, the 2014 programme implementation rate, which stood at 21 per cent as at 27 June 2014, was affected by (i) delays in refunds due from IPs for cash advances related to activities that were not implemented in the last quarter of 2013; (ii) the introduction in 2014 of an harmonized daily subsistence, fuel and transport allowances' system, which is still to be fully adopted and accepted by all programme stakeholders[7]; and (iii) the late receipt, in June 2014, of funds committed by the Maternal Health Trust Fund amounting to USD 0.3 million which was due to an extended quality assurance process to ensure the full alignment of funded activities to the Trust Funds' priorities.

[7] The new system requires that "full board" be provided for events. The organizing institution shall cover the actual costs related to the event, with no allowances paid to the participants. Accommodation and meals are to be paid directly by the organizing institution up to a maximum of MWK 35,000 (USD 90) per person per night. In addition, the organizing institution shall cover actual transport costs.

Develop a tool to track issues resulting from monitoring visits

41. The Office conducted monitoring visits during the period under review and adequately documented monitoring findings, recommendations and action plans to be undertaken, inclusive of milestones for these actions. However, the audit noted that the Office does not have a tool to track the issues identified, up to their resolution.

IMPACT	*Monitoring findings might not be timely addressed.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office Level).*
CATEGORY	*Operational.*

RECOMMENDATION 6 — ***PRIORITY: MEDIUM***

Develop a tracking tool to allow for easier tracking and escalation of monitoring issues and timely closure thereof.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS**:** *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/05/2014*

Management will ensure the development and utilization of a tracking tool for all monitoring issues to ensure their resolution and follow up during programme meetings once every month.

B.2 – NATIONAL EXECUTION — PARTIALLY SATISFACTORY

42. National Execution (NEX) expenses amounted to USD 2.2 million (19 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 10 government IPs (five central government entities and another five at district level) and 17 non-governmental organizations, 10 of which were engaged in mid-2013 for the implementation of activities related to the Gender programme component. Per the available general ledger information, expenses incurred by IPs corresponded primarily to travel (USD 1.1 million - 53 per cent of total NEX expenses), procurement of goods and services (USD 0.4 million - 18 per cent of total NEX expenses) and salaries (USD 0.3 million - 15 per cent of total NEX expenses). OFA balances, representing funds transferred to IPs for activities not implemented yet, averaged USD 1.1 million in 2013[8] and amounted to USD 0.2 million as at 31 December 2013.

43. Audit work performed in this area included the review of (i) the IP selection and capacity assessment processes; (ii) the existence of appropriate Letters of Understanding and work-plans signed with the IPs; (iii) the controls implemented for the review, authorization and processing of progress reports, fund advance requests and expense reports submitted by the IPs through the use of FACE (Funding Authorization and Certificate of Expenditure) forms; (iv) the controls implemented on OFA, used to record and control funds advanced to IPs; and (v) the process followed to monitor IP activities, for a sample of five IPs (three government entities and two non-governmental organizations) engaged by the Office, which reported aggregate programme implementation expenses of USD 0.9 million (approximately 41 per cent of total NEX expenses) in the period under review.

[8] Quarterly average

44. The audit also included the review of the results of the 2013 and 2014 NEX audits performed by the global NEX auditor and the implementation of the recommendations arising from those audits, as well as site visits to selected IPs, with the objective of developing an appropriate understanding of the way UNFPA handles IPs; in particular, (i) the IP overall control environment as pertains to UNFPA-funded programme activities; (ii) the controls over financial transactions for significant expense categories; and (iii) the process followed for the preparation and authorization of the FACE forms and work-plan progress reports submitted to UNFPA. The site visits also included the review of the safeguarding and use for intended purposes of assets provided to IPs, the evidence of implementation of selected programme activities, as well as inquiries of the IPs about their work experience with UNFPA, the support received, monitoring undertaken, the quality and frequency of communication, and the barriers and other factors potentially impacting the effectiveness of programme implementation.

45. The audit noted that a competitive process was followed for the selection of non-governmental organization IPs. Capacity assessments were timely completed for all IPs engaged, using the Implementing Partner Capacity Assessment Tool (IPCAT). NEX audits performed in 2013 covered nine IPs with expenses of USD 0.8 million (56 per cent of total NEX expenditures in 2012). Similarly, NEX audits performed in 2014 covered eight IPs with expenses amounting to USD 1.1 million (54 per cent of total NEX expenditures in 2013). Unqualified opinions were expressed for all 17 NEX audits performed in both years.

46. The audit identified the following areas in need of management attention:

Reinforce monitoring of implementing partner capabilities

47. The OAIS team noted several issues affecting the performance of one of the five IPs visited during the audit, resulting from organizational and operational changes impacting this IP.

48. The 2013 IP financial implementation rate stood at approximately 35 per cent. Nineteen out of 29 work-plan activities, related to strengthening the capacity to implement quality integrated sexual and reproductive health services (such as training in hard to reach areas, sensitization campaigns and other advocacy related activities) could not be implemented in 2013 and were rolled over into 2014. However, at the time of completion of field audit mission (27 June 2014), only 12 per cent of the planned activities had been implemented. Low implementation rate was attributed primarily to high IP staff turnover. In addition, the audit noted that the IP finance staff, interviewed by the OAIS team, had been hired shortly before the site visit and did not appear sufficiently conversant with the FACE reporting process.

49. The Office management was aware of the issues noted and, at the time of the field audit mission, had started to address them. For example, the IP finance staff was invited to an orientation session on the FACE process held in March 2014. However, no comprehensive action plan to mitigate IP capacity issue and to increase programme implementation rate could be provided to the OIAS team.

IMPACT	*Programme objectives might not be achieved.*
ROOT CAUSE	*Guidance (inadequate supervision at the Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 7	***PRIORITY: MEDIUM***

Continuously monitor IP capacity to implement UNFPA funded activities and timely take remedial actions to address issues identified that could limit the achievement of programme objectives.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30/06/2015*

Management will reinforce its existing training on UNFPA's financial policies and procedures and strictly monitor compliance through regular assurance activities and spot checks. Mitigation action plans will be developed for weaknesses identified during monitoring visits and management will supervise the implementation of the actions agreed upon with IP management using the tracking tool for identified issues to ensure follow up and resolution. Malawi Office through DaO will be part of the annual micro assessment of IPs and results will be used for taking appropriate actions.

Reconcile Operating Fund Account balances on a quarterly basis

50. The audit noted that at the time of the field audit mission (June 2014), the Office had not yet completed the reconciliations of the OFA balance as at 31 March 2014.

IMPACT	*Reported NEX expenses and OFA balances may be inaccurate.*
ROOT CAUSE	*Guidance (inadequate supervision at Office level).*
CATEGORY	*Reporting.*

RECOMMENDATION 8 ***PRIORITY: MEDIUM***

Prepare OFA balance reconciliations on a quarterly basis and review the reconciliations for accuracy and proper corrective action, as required.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Ongoing*

Management will continuously strengthen the OFA reconciliation process. In particular, commencing from October 2014, management will provide oversight for the timely preparation of OFA balance reconciliations on a quarterly basis. OFA reconciliation documents will be reviewed for accuracy and appropriately filed.

Ensure that assets provided to IPs are used only for the intended purposes

51. The audit noted that two vehicles transferred to IPs to support the Gender programme had been used for activities outside the scope of that programme. The Office was unaware of this situation, which occurred in May 2014, close to the time of the audit site visits. The audit noted that Management had previously issued reminders to IPs regarding the proper use of UNFPA-provided vehicles, after some IPs had made some requests to use the vehicles for non-project-related activities.

IMPACT	*Assets could be damaged or not be available for programme delivery purposes. Ineligible vehicles operation costs may be incurred.*
ROOT CAUSE	*Other (factors beyond the control of UNFPA).*
CATEGORY	*Operational.*

RECOMMENDATION 9 ***PRIORITY: MEDIUM***

Continuously raise IP awareness and expand the scope of field monitoring visits to ensure that assets provided to IPs are properly safeguarded and used exclusively for the purposes for which they were provided

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: O*ngoing*

Management has always emphasized and shared with IPs the relevant UNFPA rules and regulations on utilization of project assets such as vehicles. Management will continue to reemphasize this with the IPs and institute a process of monitoring the use of vehicles and other assets.

Strengthen financial monitoring of implementing partners

52. NEX audits performed in both 2013 and 2014 identified recurrent internal control weaknesses, primarily with respect to (i) payment of Daily Substantive Allowance (DSA) in excess of approved rates; (ii) lack of supporting documentation for the expenses reported by IPs; (iii) inclusion of VAT in the amounts of expenses reported by IPs; and (iv) inaccurate IP record-keeping. These issues, the financial impact of which was estimated at USD 46,652 for 2013 and USD 9,645 for 2012, are reflective of gaps in the effectiveness of the Office's IP financial monitoring process.

53. Four of the IPs affected by excess DSA payments visited in the course of the audit attributed the problem to human error and oversight on their part, and assured that a more stringent review process would be implemented to ensure that the problems did not occur in the future.

54. The Office developed a plan to monitor the implementation of the 2013 NEX audit recommendations. At the time of the field audit mission, all unsupported expenditures identified by the NEX audits had been cleared. Similarly, the Office was working on an action plan related to the issues identified in the 2014 NEX audits.

55. However, there is a need to strengthen the financial monitoring process, including a more focused action plan to address NEX audit findings, specifically those related to over-payment of DSA which should have been given priority during monitoring visits for all IPs.

IMPACT	*Programme funds used for unintended purposes.*
ROOT CAUSE	*Guidance (inadequate supervision at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 10 ***PRIORITY: HIGH***

Strengthen the financial monitoring of IPs, giving appropriate attention to large expense categories and areas impacted by recurring NEX-audit findings

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Ongoing*

The Office has always focused on the status of implementation of NEX audit findings during monitoring and supervision visits to IPs. The process will be further strengthened and monitored through spot checks and the monitoring tracking tool. In 2014, AWPs have been changed to detail budget categories for easy tracking of expenditures.

B.3 – INVENTORY MANAGEMENT	**PARTIALLY SATISFACTORY**

56. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of USD 4.2 million, which was funded from non-core resources provided by a key donor and by the Global Programme to Enhance Reproductive Health Commodity Security. In addition, the Office supplied inventory at a cost of USD 0.9 million in 2012. The large majority of the inventory supplied consisted of contraceptives, pharmaceutical products and medical kits procured by UNFPA's Procurement Services Branch (PSB) based in Copenhagen, Denmark. Locally procured inventory consisted mainly of dignity kits, amounting to USD 20,383, to support emergency response activities in the Mangochi district which had been affected by flooding in early 2013.

57. Audit work performed included the testing of a sample of inventory supplied in 2012 and 2013 at a cost of USD 3.8 million (73 per cent of the value of inventory supplied), looking into: (i) requisitioning; (ii) custom clearance, receiving and inspection; (iii) inventory controls (while the goods procured remained in UNFPA's possession); (iv) inventory handover to IPs; (v) distribution to intended beneficiaries; and (vi) monitoring. For locally procured commodities, audit work included a review of the related procurement processes (refer to section C.2 of this report).

58. Audit work further included site visits to the three major warehouses managed by the Ministry of Health, located in Lilongwe (Central region) and Blantyre (Southern region), as well as of five health facilities located in the districts of Mangochi, Chiradzulu and Blantyre. The objectives were to (i) verify the receipt of the commodities procured by UNFPA; (ii) assess the warehouse controls in place and the reliability of the inventory records maintained; (iii) test the distribution of the commodities by tracing a sample of deliveries across the supply chain; and (iv) determine stock-out levels, if any, at the warehouses and health facilities. Audit work also included the review of the last available survey related to contraceptive availability and stock-out levels. In addition, the audit reviewed the existence and valuation, in accordance with International Public Sector Accounting Standards (IPSAS), of the inventory of contraceptives and medical equipment in-transit as at 31 December 2013 that was reflected in the UNFPA financial statements for 2013 at a value of approximately USD 14,000.

59. The audit noted some areas requiring management attention, which are highlighted below.

Complete receiving and inspection forms for all commodity shipments

60. The audit was not provided with documentation regarding the receipt and inspection process for the commodity shipments selected for testing. This compliance gap was caused by the Office staff's misunderstanding of the requirement[9] to complete receiving and inspection reports for all shipments, and not only when goods were not received in good order/condition.

IMPACT	*Limited ability to detect shortages, damage or quality problems affecting the inventory supplied and timely take corrective action.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Compliance.*

RECOMMENDATION 11	***PRIORITY: MEDIUM***

Conduct receiving and inspection procedures and complete Receipt and Inspection Reports, as prescribed in the inventory management policy, for all internationally or locally procured inventory.

[9] Inventory management policy - paragraph A.4.10

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Ongoing*

Relevant UNFPA officers will conduct receiving and inspection procedures and complete Receipt and Inspection Reports, as prescribed in the inventory management policy, for all internationally or locally procured inventory.

Enhance the Office's monitoring on reproductive health commodities' distribution and availability

61. The audit noted that, during the period under review, there was limited monitoring of commodity distribution by the Office. The latter's involvement was limited to the approval of the distribution plan prepared in conjunction with the Ministry of Health (MoH). The Office did not have in its possession detailed information as regards the distribution plan implementation and the receipt of commodities by health facilities.

62. Enquiries and observation at the two warehouses and five health facilities visited by the OAIS team did not reveal major commodity stock-outs during the period under review. The national commodity availability baseline survey[10] completed during April and May 2014 was based on a sample of 164 facilities (primarily at primary and secondary level) out of a population estimated at 698 facilities; it found out that: (i) over 80 per cent of the facilities offered the most commonly used methods of contraception[11] on a regular basis; (ii) over 75 per cent of the facilities offered implants on a regular basis; and (iii) 47.6 per cent of the facilities reported at least one contraceptive out of stock in the six months preceding the survey. The larger stock-outs corresponded to injectable hormonal contraceptives, the most widely modern method used in Malawi (30.5 per cent), male condoms (27.4 per cent) and female condoms (15.2 per cent).

63. The issues regarding commodity availability identified in the survey were primarily attributed to delays in the resupply of health facilities by the designated warehouses and supply points, emphasizing the importance of maintaining regular monitoring of the distribution process.

64. The audit noted that the Malawi UNDAF[12] Action Plan includes ouput indicators related to (i) the number of health facilities providing at least three methods of modern family planning and (ii) condom availability; yet, the Plan does not include any output indicators related to contraceptive availability levels, although this is a key requirement to achieve the programme's goal of increasing contraceptive prevalence to 60 per cent by 2016, from a baseline of 42 per cent in 2010. The commodity availability survey, commissioned for the first time in 2014 following the inclusion of Malawi in the list of 46 priority countries for the Global Programme to Enhance Reproductive Health Commodity Security, provides valuable information, including a commodity availability baseline. It is suggested that the Office use it to determine the commodity inventory levels required to reach the contraceptive prevalence goal and to guide further programme interventions in this area.

[10] National Survey on availability and accessibility of modern contraceptives and essential life-saving maternal and reproductive health drugs in service delivery points in Malawi. Government of the Republic of Malawi and United Nations Population Fund, May 2014.
[11] Male and female condoms, and oral and injectable contraceptives.
[12] United Nations Development Assistance Framework

IMPACT	*Commodity distribution and availability issues might not be timely identified and addressed.* *Inability to measure progress towards achieving programme goals related to contraceptive prevalence and commodity availability.*
ROOT CAUSE	*Guidance (Lack of supervision at Office level).*
CATEGORY	*Operational*

RECOMMENDATION 12 — ***PRIORITY: HIGH***

Closely monitor the distribution and availability of reproductive health commodities, including a regular review of information provided by the logistics information management systems combined with visits to warehouses and facilities; define and implement appropriate capacity building actions to help the Government address the logistical issues that led to stock-outs, starting with those identified in the 2014 commodity availability baseline survey

RESPONSIBLE MANAGER: *Representative, Malawi* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *Ongoing*

The Office will closely monitor the distribution and availability of reproductive health commodities, including a regular review of information provided by the logistics information management systems combined with visits to warehouses and facilities; define and implement appropriate capacity building actions to help the Government address the logistical issues.

RECOMMENDATION 13 — ***PRIORITY: HIGH***

As part of the Strategic Plan alignment process, define and track programme output indicators related to commodity availability, with realistic and achievable targets considering the baseline provided by the commodity availability survey.

RESPONSIBLE MANAGER: *Representative, Malawi* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: 31/12/2014

As part of the process of the Strategic Plan alignment, the Office is defining and formulating programme output indicators related to commodity availability, with realistic and achievable targets considering the baseline provided by the commodity availability survey.

B.4 – MANAGEMENT OF NON-CORE FUNDING — SATISFACTORY

65. Programme implementation expenses funded from non-core resources amounted to approximately USD 7.5 million (67 per cent of total programme expenses) in the period under review. Of this amount, approximately USD 4.0 million corresponded to funding provided by donors for the supply of reproductive health commodities, and approximately USD 3.0 million to funding provided by another donor for the promotion of gender equality and empowerment programme in Malawi.

66. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for the above mentioned co-financing agreements. The audit also tested the accuracy of reports submitted to the donors and the compliance with the new cost recovery policy; audit work further included inquiries of representatives of the two donors mentioned above, to obtain an understanding of their working relationship with the Office and their assessment of UNFPA's performance and achievements.

67. No issues were noted in the areas of compliance with the co-financing agreements and expense eligibility and reporting. In addition, donors did not highlight any issues as regards report quality and timeliness of their submission.

68. The audit further noted that the Office undertook actions to address the concerns raised by a major donor in relation to the Office's ability to achieve results and provide value for money for activities funded by said donor. The donor representatives interviewed in the course of the field audit mission mentioned the marked improvement in the process followed by the Office to communicate challenges and needs, as well as the actions taken to address them.

C. OPERATIONS MANAGEMENT	PARTIALLY SATISFACTORY

Good practices identified

69. The audit identified the following good practices in the area of operations management, which are in line with established policies and procedures:

a) Human resources files were well organized and kept; and
b) Relevant work-plan sections were included in the procurement files to allow for a better linkage of procurement to programme needs.

C.1 – HUMAN RESOURCES	SATISFACTORY

70. During the period under review, the Office incurred payroll expenses amounting to USD 1.6 million. In addition, the Office made use of contract personnel and engaged 19 individuals under the Service Contract (SC) and Special Service Agreement (SSA) modalities, for management activities and programme delivery, incurring related expenses in the amount of USD 0.2 million. At the time of the field audit mission, the payroll for both Office staff and SCs was managed by the United Nations Development Programme (UNDP).

71. Audit work performed in this area included an analytical review of payroll and contract personnel expenses, a walkthrough of the payroll reconciliation controls at UNDP, and the testing of a sample of 11 contracts awarded by the Office at a cost of USD 0.1 million, for linkage to the corresponding work-plans and compliance with policies and procedures and operating effectiveness of controls in the areas of (i) recruitment; (ii) contract award; (iii) contract management; and (iv) calculation and authorization of compensation and benefits. Audit procedures applied also included the testing of locally liquidated staff benefits and entitlements amounting to USD 0.2 million, as well as review of the Office's leave management process and of the compliance with mandatory staff training requirements.

Comply with human resources policies and procedures regarding contract personnel

72. The audit noted that five of the 11 contracts tested were signed after the concerned personnel started to provide services to the Office, deviating from the applicable policy which requires that contracts be signed prior to start of service. Four out of the five exceptions identified corresponded to personnel engaged under the SC modality. It should be noted that at the time of the field audit mission, the Office transferred the SC payroll management to UNDP, which would prevent the occurrence of similar issues in the future. Accordingly, no audit recommendation is provided as regards this matter.

IMPACT	*The Office may be exposed to legal liability by engaging personnel before the contractual relationship is finalized.*
ROOT CAUSE	*Guidance (inadequate supervision at Office level).*
CATEGORY	*Compliance.*

C.2 - PROCUREMENT	**SATISFACTORY**

73. During the period under review, the Office locally procured goods and services at a cost of approximately USD 0.9 million, issuing a total of 128 purchase orders. The most significant categories of goods and services procured corresponded to printing services and publications. In addition, the Office procured reproductive health commodities and other inventory items, transportation equipment and printing and publication services through UNFPA's Procurement Services Branch, based in Copenhagen, Denmark, at a cost of approximately USD 5.3 million.

74. Audit work performed in this area included the review of a sample of 30 local procurement transactions made at a cost of USD 0.4 million (46 per cent of the amount of local procurement) for linkage to the corresponding AWPs, compliance with the UNFPA procurement principles[13] and policies and procedures, operating effectiveness of controls in the areas of (i) requisitioning; (ii) solicitation and bidding; (iii) bid assessment; (iv) vendor selection; (v) contract award; (vi) purchase order issuance; and (vii) receiving. Finally, the audit reviewed the procurement planning process and management as regards common services shared with other United Nations organizations.

75. No reportable issues were identified based on the audit work performed in this area.

C.3 – FINANCIAL MANAGEMENT	**UNSATISFACTORY**

76. During the period under review, the Office processed 2,107 financial transactions, including 1,798 accounts payable vouchers which are used to process payments, and 224 accounts payable journal vouchers which are primarily used to process adjustments and record expenses reported by IPs. The remaining 85 transactions related to processing asset management type transactions.

77. Work performed in this area included the review of (i) the Office financial management capacity; (ii) financial transaction authorization and proper processing; (iii) transaction coding to the correct project, activity, general ledger account, IP and fund codes; (iv) the operating effectiveness of controls over the accounts payable and payments process; (v) the value-added tax control arrangements in place; (vi) the budget management process; and (vii) the effectiveness of the financial management accountability process.

78. Based on the work performed, three matters that require management attention were identified.

Strengthen supervision to ensure that financial transactions are properly recorded

79. A large proportion of expenses reported by IPs were not charged to the correct general ledger accounts in 2012 and 2013. Based on the review of a sample of 15 FACE forms submitted by five IPs, the audit noted that approximately 70 per cent of expenses amounting to USD 0.9 million recorded as travel expenses should have been charged to other general ledger accounts, such as training of counterparts and printing and publications services. Management identified the problem towards the end of 2013 and

[13] Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

attributed it to insufficient training and supervision; it consequently conducted a training session to ensure that expenditures were charged to their rightful accounts. In 2014, the Office implemented a process whereby programme and finance officers cross-check coding of expenses at weekly and monthly review meetings. The review by the audit of three FACE forms for the first quarter of 2014 revealed improvements in this area.

80. Additional accounting errors were noted by the audit through its review of grants and procurement transactions. For example, purchases made at a cost of USD 40,245 that ought to have been recorded as printing and publications costs were recorded instead as other media expenses; grants provided to non-governmental organizations for an amount of USD 29,994 were recorded as stationery expenses. Management indicated that it was aware of these errors and, as from 2014, would regularly review transactions to ensure that they were correctly recorded in Atlas; no details on the process implemented were provided to the OAIS team.

IMPACT	*Inaccurate financial reporting which may lead to incorrect decisions*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Reporting.*

RECOMMENDATION 14	***PRIORITY: HIGH***

Establish supervisory controls to ensure the use of correct general ledger codes for recording expenditures.

<u>RESPONSIBLE MANAGER</u>: *Representative, Malawi*	<u>STATUS</u>**:** *Agree*
<u>MANAGEMENT ACTION PLAN</u>:	<u>DUE DATE</u>: *Ongoing*

The Office has strengthened in house capacity and establishes supervisory mechanism through use of specially developed tools on correct coding in ATLAS.

<u>*Regularly complete and submit financial accountability checklist*</u>

81. The audit noted that financial accountability checklists, which must be submitted to headquarters on a monthly basis, were last prepared in December 2013. At the time of the field audit mission, the Office had not submitted any of the financial accountability checklists due in 2014.

82. Based on its inquiries of finance staff, the audit noted that financial accountability checklists used to be prepared by the Operations Manager, who left the Office in February 2014. The Office's finance personnel was not aware that they have been assigned this responsibility, as no formal hand-over was performed when the Operations Manager left. Further, it was noted that the list of checklist preparers had not been updated following the Operations Manager's departure.

IMPACT	*Limited ability to timely detect and correct errors.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Compliance.*

RECOMMENDATION 15	***PRIORITY: MEDIUM***

Update the list of financial accountability checklist preparers, formally assign responsibility for their preparation and monitor their timely and accurate completion and submission.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS**:** *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Ongoing*

With the arrival of the International Operations Manager, the Office management has formally assigned appropriate officers to prepare financial accountability checklist and is monitoring timely completion. All pending checklists have been completed and certified as of 19 November 2014. Management will ensure adherence to guidelines continually.

Strengthen the value-added tax management process

83. Goods and services procured directly by UNFPA for the implementation of its programme are exempt from the 16.5 per cent value-added tax. The tax is paid upfront to suppliers and claimed from the Malawi Revenue Authority through the submission of applications for refund.

84. The audit noted that reimbursement of value-added tax paid was not claimed in a timely manner. An application for refund was submitted in January 2014 for the tax paid from 2009 to 2013, for a total of MWK 90.6 million (USD 0.2 million). At the time of the field audit mission, no refund had been received; further, no claim had been submitted for 2014-incurred VAT for a total amount of MWK 12.6 million (USD 32,093).

85. Further, the amount of tax claimed in January 2014 (MWK 90.6 million) did not match the balance of the corresponding balance sheet account (MWK 33. 4 million), reflecting a lack of regular reconciliation. In addition, the audit noted 16 instances of VAT directly expensed, for a total amount of MWK 7.4 million (USD 19,042).

86. VAT paid by IPs on UNFPA-funded procurement of goods and services, although it could be claimed, was not separately reported in the FACE forms submitted to the Office, and was therefore charged as part of the expenses reported to UNFPA. Therefore, NEX expenses were overstated by the amount of VAT paid by IPs, the amount of which could however not be quantified by the OAIS team. Management informed the OAIS team that a template had been developed and a training session on how to report VAT was planned to be conducted in 2014 for all IPs.

87. Finally, it should be noted that VAT funded from non-core resources may be an ineligible expense, depending on donor funding agreements.

IMPACT	*Cost savings opportunities, increasing funds available for programing, may not be realized.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 16 ***PRIORITY: MEDIUM***

Regularly review expenses, for proper treatment of value-added tax; perform reconciliations of value-added tax accounts and claim reimbursement of tax paid, including amounts reported by IPs, at least on a bi-annual basis.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Ongoing*

The Office worked with the United Nations Operations Management Team in Malawi to harmonize and facilitate VAT claim. This was presented to IPs during 2014 mid-year review. The Office developed a VAT tracking tool that is linked to FACE and cash book for easy follow up of VAT which IPs are using. The Office will regularly review expenses, reconcile and regularly follow up on submitted VAT request for reimbursement.

RECOMMENDATION 17	PRIORITY: MEDIUM

Estimate the amount of VAT claimed for refund originally charged to non-core resource fund codes and, with the support of the Resource Mobilization Branch, communicate with the concerned donors to determine whether refunds to donors are warranted.

RESPONSIBLE MANAGER: *Representative, Malawi* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30/6/2015*

The Office will estimate the VAT claimed for refund originally charged to non-core resource funds and will seek support from the Resource Mobilization Branch and accordingly will communicate with the concerned donors.

C.4 – GENERAL ADMINSTRATION	SATISFACTORY

88. Work performed in this area focused on the travel and asset management processes.

89. Travel expenses incurred by the Office during the period under review amounted to USD 1.2 million. A significant portion of the expenses corresponded to DSA payments for monitoring and supervisory visits as well as for training workshops. Audit work performed in this area consisted in the testing of a sample of 10 DSA payments amounting to approximately USD 0.25 million (20 per cent of total travel expenses) for appropriateness of business purpose, compliance with policies and procedures and operating effectiveness of the controls over (i) the procurement of travel services; and (ii) the authorization, calculation and payment of DSA. Travel services expenses were assessed as a lower risk area; hence, audit work in this area was limited to a walkthrough of a limited number of transactions. The audit also assessed the process followed for the award of LTAs with travel agencies and to enforce compliance with security clearance requirements.

90. During 2012 and 2013, the office procured fixed assets for its own use and for delivery to IPs at a cost of approximately USD 0.9 million. The most significant category of fixed assets procured by the Office (67 per cent of the purchases made) were motor vehicles for the Gender programme. Audit work performed in this area included the review of a sample of assets procured, at a cost of USD 0.8 million (88 per cent of the value of fixed assets procured) for appropriateness of business purpose and compliance with the asset management policies and procedures, including the timely transfer of the assets to the IPs for which they were procured.

91. Asset and travel were generally well managed. No reportable issues were noted based on the work performed.

C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY	SATISFACTORY

92. Work performed in this area included the review of Atlas access rights and a limited review of the Office's backup policy and IT disaster recovery plan, as well as an inspection of the server room.

93. No reportable issues were noted based on the work performed.

C.6 – SECURITY MANAGEMENT	SATISFACTORY

94. No reportable issues were noted based on the work performed in this area, which included the assessment of the process for gathering security information, analysis of the security situation, personnel and vehicle safety and tracking systems, prevention mechanisms and incident handling. In addition, the audit reviewed UNFPA's representation in the Security Management Team, as well as security training provided to the Office's personnel and visitors; there too, no reportable issues were found.

ANNEX 1

Definition of Audit Terms

A. AUDIT RATINGS

Effective 1 January 2010, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP use revised harmonized audit rating definitions, as described below:

- **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 adequately established and functioning well. 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 functioning well. The issues were such that the achievement of the objectives of the audited entity could be seriously compromised.

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

- **Guidelines**: absence of written procedures to guide staff in performing their functions:
    - Lack of or inadequate corporate policies or procedures
    - Lack of or inadequate Regional and/or Country Office policies or procedures
    - Inadequate planning
    - Inadequate risk management processes
    - Inadequate management structure
- **Guidance**: inadequate or lack of supervision by supervisors:
    - Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
    - Inadequate oversight by Headquarters
- **Resources**: insufficient resources (funds, skills, staff) to carry out an activity or function:
    - Lack of or insufficient resources: financial, human, or technical resources
    - Inadequate training
- **Human error**: Un-intentional mistakes committed by staff entrusted to perform assigned functions.
- **Intentional**: intentional overriding of internal controls.
- **Other**: Factors beyond the control of UNFPA.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

Audit recommendations are categorized according to their priority, as a further guide to management in addressing the related issues in a timely manner. The following categories of priorities are used:

- **High**: Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization);
- **Medium**: Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences);
- **Low**: Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are discussed by the audit team directly with the management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic**: High level goals, aligned with and supporting the entity's mission.
- **Operational**: Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage.
- **Reporting**: Reliability of reporting, including fulfilling accountability obligations.
- **Compliance**: Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions.

GLOSSARY

COGNOS	Corporate reporting system used by UNFPA
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditures
HQ	Headquarters
IP	Implementing Partner
IPCAT	Implementing Partner Capacity Assessment Tool
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
MWK	Malawian Kwacha
NEX	National Execution
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
OMP	Office Management Plan
PAD	Performance Appraisal Development
PSB	Procurement Services Branch
SC	Service Contract
SSA	Special Service Agreement
UNDAF	United Nations Development Assistance Framework
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars
VAT	Value-Added Tax