



INTERNAL AUDIT DIVISION

REPORT 2014/039

Audit of United Nations High Commissioner for Refugees operations in Malawi

Overall results relating to the effective management of UNHCR operations in Malawi were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING:
PARTIALLY SATISFACTORY

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AUDIT REPORT

Audit of United Nations High Commissioner for Refugees operations in Malawi

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) Representation responsible for management of operations in Malawi (hereafter referred to as ‘the Representation’)
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The Representation was opened in 1989 to provide international protection and material assistance to refugees and asylum seekers. Malawi hosts 18,426 refugees and asylum-seekers, mostly in Dzaleka camp, mainly from the Democratic Republic of Congo, Rwanda and Burundi. The Representation worked with four implementing partners from 2011 to 2012 consisting of two government partners, one international partner and one local partner. It had one office in Lilongwe whose staff also managed the camp in Dzaleka. As of 30 May 2013, there were a total of 16 staff posts in Malawi consisting of 3 international staff posts (the Representative and 2 international UNVs), 2 national officer posts and 11 local staff posts. Three posts were vacant.
4. The expenditure for the Representation was \$2 million in 2011 and \$1.5 million in 2012. The budget for 2013 was \$1.6 million. The Representation held 30 Property, Plant and Equipment (PPE) items with a purchase value of \$625,758 as well as 87 Serially Tracked Items (STIs) with a purchase value of \$123,787.
5. Comments provided by UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the Representation’s governance, risk management and control processes in providing reasonable assurance regarding **effective management of UNHCR operations in Malawi**.
7. This audit was included in OIOS’ 2013 risk-based annual work plan, due to risks related to the programme, financial, procurement and asset management activities of the Representation. The last audit of the Representation was conducted in 2008.
8. The key controls tested for the audit were project management and regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Project management** - controls that are designed to provide reasonable assurance that there is accurate and complete monitoring and reporting of the Representation’s project activities.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures exist, are adequate and effective.

9. The key controls were assessed for the control objectives shown in Table 1 below.

10. OIOS conducted this audit from August to September 2013. The audit covered the period from 1 January 2011 to 30 June 2013.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness. OIOS interviewed staff from UNHCR and relevant implementing partners; reviewed policies, guidelines, procedures and other relevant documents; and reviewed data available in the Managing for Systems, Resources and People (MSRP) system.

III. AUDIT RESULTS

12. The Representation governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding **effective management of UNHCR operations in Malawi**. OIOS made eight recommendations to address the issues identified in the audit.

13. Project management was assessed as partially satisfactory as the Representation needed to: (i) train staff on the follow-up of external audit recommendations; (ii) introduce a mechanism for preparing and implementing annual project financial monitoring plans; and (iii) introduce a mechanism for ensuring that refunds of unspent balances are done in a timely manner. The Representation took corrective action and implemented the recommendations that were made by OIOS.

14. Regulatory framework was assessed as partially satisfactory because there was a need to: (i) implement local procedures for ensuring that approval from the relevant committee on contracts is consistently obtained and to schedule procurement training for staff handling procurement matters including members of the Local Committee on Contracts; (ii) review the existing vendor records in MSRP and to close any duplicate records; and (iii) ensure that the office was Minimum Operating Security Standards (MOSS) compliant and to assess MOSS compliance twice a year. The Representation took corrective action to: develop standard operating procedures (SOPs) for procurement; trained staff in inventory and asset management; physically verified PPEs and STIs; and updated asset records in MSRP.

15. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNHCR operations in Malawi	(a) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Project management

Action was taken to train staff on the process for following up on external audit recommendations

16. UNHCR rules require a systematic and continuous review of external audit recommendations particularly for audit certificates with qualified opinions. This review includes the submission of a recommendations follow-up matrix to the Accounts and Financial Service (AFS) at headquarters indicating the dates by which corrective actions are to be taken.

17. The Representation did not undertake follow-up of outstanding audit recommendations during 2011 and 2012. In 2013, while it prepared recommendations follow-up matrices relating to 2012 year end audits, it did not indicate the date for corrective actions to be completed, and did not submit the matrices to headquarters as required. This failure to do proper follow-up could lead to the failure to address identified control weaknesses on a timely basis. This shortcoming was due to the Representation's lack of familiarity with all aspects of the relevant rules.

(1) The UNHCR Representation in Malawi should train its staff on the process for following up external audit recommendations.

The Representation accepted recommendation 1, and stated that as recommended, training was undertaken in February 2014. Based on the action taken by UNHCR, recommendation 1 has been closed.

Action was taken to develop and implement a project financial monitoring plan for implementing partner activities

18. UNHCR rules require expenditures incurred by implementing partners to be verified before being recorded as expenditures in MSRP. They also require the preparation of a monitoring plan, the conduct of at least one financial monitoring visit per implementing partner per year, and more monitoring visits for implementing partners with weak internal controls.

19. The Representation did not perform any monitoring of implementing partner expenditures and project activities in 2011 and 2012. The relevant implementing partner expenditures, whose value totaled \$2.2 million, were recorded in MSRP and approved by the Representation. The Representation stated it relied on external audit reports. However, external audits took place only after the expenditure had

already been recorded in the system. As a consequence, the Representation only learnt about unsupported and unjustified expenditure after it had already accepted and recorded the expenditures.

20. While there was an effort to start financial monitoring in 2013, there was no monitoring plan established at the beginning of the year agreed jointly with implementing partners as required. Moreover, financial verification was done only in the first quarter of 2013 and the reports were not of the required standard as they did not indicate the nature and amount of unjustified expenditure and the required adjustments from implementing partners. The main reason for the lack of financial monitoring of implementing partners in 2011 and 2012 was the absence of a monitoring plan and of proper training in the area of project financial control. The lack of monitoring of partners prevented the timely identification of implementing partner weaknesses in financial management, procurement and delays in the submission of reports and the refund of unspent balances. The Representation took action and project control training was provided in September/October 2013. A project monitoring plan still needed to be prepared for monitoring activities in 2014.

(2) The UNHCR Representation in Malawi should introduce a mechanism for preparing and implementing annual project financial monitoring plans.

The Representation indicated that it accepted recommendation 2 and stated that training on annual project financial monitoring was provided in February 2014. The project financial monitoring plans for 2014 were in place. Based on the action taken by UNHCR, recommendation 2 has been closed.

Action was taken to implement a mechanism for ensuring that refunds of unspent balances are done in a timely manner and to fully record 2012 implementing partner expenditures

21. All four implementing partners did not comply with the clauses in their agreements with UNHCR relating to timely refunds of unspent balances. The refunds and final reports for each year were due by the 15th day of February in the following year. One implementing partner had not refunded unspent balances relating to 2011 and 2012 (as of August 2013). According to the programme section, the 2011 refund amount was small and had thus escaped their attention. The Representation also did not correctly determine the 2012 unspent balances, as it had not recorded the expenditure relating to the last quarter of 2012 in MSRP, as of August 2013.

22. The Representation could not explain why three implementing partners had negative balances as of August 2013, other than stating that this could be an error. One implementing partner refunded unspent balances relating to 2012 on 23 May 2013 (\$7,186) and 11 July 2013 (\$11,956) with delays of three and five months respectively.

23. Not ensuring that refunds of unspent balances are made in a timely manner, and that expenditure is recorded correctly, could result in the loss of UNHCR funds.

(3) The UNHCR Representation in Malawi should: (i) Introduce a mechanism for ensuring that refunds of unspent balances are done in a timely manner; and, (ii) Correctly record all 2012 project expenditures in Managing for Systems, Resources and People system.

The Representation accepted recommendation 3 and stated that: i) as recommended, the mechanism was introduced during the course of February 2014 and ii) all 2012 project expenditures had been recovered. Based on the action taken by UNHCR, recommendation 3 has been closed.

B. Regulatory framework

Need to ensure that approval from the relevant committee on contracts is consistently obtained, and to conduct procurement training

24. UNHCR rules require all procurement cases over \$20,000 to be submitted for review and approval to the relevant committee on contracts, which ensures that competitive bidding is used to determine the most economical offer/proposal.

25. A review of 58 purchase orders, with a total value of \$1.8 million, indicated that:

- The Local Committee on Contracts (LCC) endorsed retroactive approvals for procuring soap worth \$33,154 and electrical power transformers worth \$92,279.
- The procurement of audit services for \$32,329, rental of building for \$84,661, and procurement of a passport system for \$88,560, did not pass through the LCC.
- The Representation obtained only two to three quotations for various procurement cases contrary to UNHCR procurement guidelines. For example, in the procurement of blankets for \$40,849 two quotations were obtained instead of the required eight, and for the travel agency contract for \$23,690, three quotations were invited instead of eight.
- Eight purchase orders from 2011 and three from 2012, totaling \$56,855, were still open beyond their cut-off dates at the end of their respective years. According to the Representation this was an oversight.
- No technical evaluation was done for procurement of services relating to external audits, transport, and the travel agency.
- Cumulative amounts for some services were not being tracked; thereby by-passing the Local Committee on Contracts (LCC). Examples included procurement of air transport (\$38,523) and conference events (\$23,583).

26. These shortcomings were mainly caused by: (a) lack of supply staff with adequate knowledge of procurement rules; (b) lack of procurement training for programme and administration staff handling procurement cases for members of the LCC; and (c) absence of clear procedures to monitor the levels of procurement requiring referral to LCC and Regional Committee on Contracts. As a result of the above weaknesses, UNHCR risked not getting the best value for money on procurement.

(4) The UNHCR Representation in Malawi in cooperation with the Regional Office for South Africa should: (i) Implement local procedures for ensuring that approval from the relevant committee on contracts is consistently obtained; and, (ii) Schedule procurement training for staff handling procurement and members of the Local Committee on Contracts.

The Representation indicated that it accepted recommendation 4 and stated the Regional Representation in South Africa would conduct a mission to assist the Representation with the implementation of this recommendation. Recommendation 4 remains open pending receipt of documentary evidence that: the mission from the regional office was undertaken; and procurement training was provided.

Need to review vendor records and close duplicate records.

27. UNHCR rules require the use of a vendor review committee to achieve cost effective procurements and to streamline the process of pre-qualifying vendors. The Vendor Review Committee

(VRC) had not been constituted in 2011 and 2012, and vendor vetting procedures had not been implemented at the Representation. The committee was set up in 2013. However, there were no files for the 612 vendors recorded in MSRP. There were also 20 duplicate names in the MSRP vendor list which increased the risk of double payments given that payment vouchers, invoices and other supporting documentation were not marked “Paid” to avoid duplicate payments.

28. These shortcomings occurred because staff members were not conversant with UNHCR procurement rules and procedures and did not fully understand their roles. As a result there was a risk that the Representation did not receive value for money for some procurement cases.

(5) The UNHCR Representation in Malawi should review the existing vendor records in Managing for Systems, Resources and People and close all duplicate vendor records.

The Representation indicated that it accepted recommendation 5 and stated that it had reviewed and identified the duplicate vendor records. The duplicate vendors would be deleted from Managing for the Systems, Resources and People (MSRP). Recommendation 5 remains open pending receipt of evidence that all duplicate vendor records in MSRP had been closed.

Action was taken to strengthen the Local Asset Management Board and to put in place local procedures for the disposal of assets

29. UNHCR rules require supervised disposal by a committee within six months once a decision to dispose of assets has been made. UNHCR rules also require the Local Asset Management Board (LAMB) to convene quarterly or more frequently if required.

30. However, these rules were not complied with in the following respects:

- 14 motor vehicles approved for disposal in 2008 were only disposed of four years later in 2012. The delays in disposal resulted in reduction in net realizable values.
- The disposal of the cars was not done in accordance with the rules as there was no report from either the staff or the auctioneer summarizing the results of the sale including the names of buyers and sale prices. The records available were thus insufficient to determine whether UNHCR got the best value for money.
- Some assets, including 24 fully depreciated items, comprising computers, laptops and communication equipment were shown in MSRP as damaged for over a year, and since the relevant details were not submitted to the LAMB, no action was taken to dispose of them.
- The LAMB in Malawi had only met twice between 2009 and August 2013, on average only once every two years.

31. The above weaknesses were attributed to the lack of training and lack of adequate local procedures for ensuring that UNHCR guidelines on disposal of assets were adhered to.

(6) The UNHCR Representation in Malawi should (i) schedule training on the disposal of assets for staff managing assets and members of the Local Asset Management Board (LAMB); and (ii) put in place local procedures, including the use of appropriate checklists and reviews, to ensure that the LAMB operates effectively.

The Representation indicated that it accepted recommendation 6 and stated that i) training on Warehousing, Inventory and Asset Management took place at the Regional Office in South Africa during the course of October 2013 and ii) a mechanism had been put in place for Local Asset

Management Board (LAMB) meetings to take place on a quarterly basis. Based on the action taken by UNHCR, recommendation 6 has been closed.

Action was taken to verify assets and to update related records in the Managing for Systems, Resources and People system

32. UNHCR rules require the annual and full physical verification of all assets, including PPE and STI; an update on the asset records in MSRP and a report on the PPE physical verification to headquarters, to ensure compliance with International Public Sector Accounting Standards (IPSAS). The Representation had not conducted adequate physical verifications to ensure the availability of up-to-date asset records and reports. For PPE, the Representation had not included UNHCR permanent buildings constructed in the camps valued at \$28,620 in its asset records. Three motor vehicles that had been disposed of were still in MSRP, one motor vehicle and five motor cycles which were physically verified were not recorded in MSRP. Two motor vehicles, one refrigerator and one satellite decoder had no bar codes which is something that could have been rectified had verification and related remedial action been undertaken.

33. These shortcomings arose because no training in asset management for members of the LAMB and staff dealing with asset management had been provided. As a result, the asset information in MSRP contained errors and omissions.

(7) The UNHCR Representation in Malawi should physically verify all Property, Plant and Equipment and Serially Tracked Items and update asset records in Managing for Systems, Resources and People system.

The Representation accepted recommendation 7 and stated that it had updated the Property, Plant and Equipment and Serially Tracked Items and updated accordingly the asset records in the Managing for Systems, Resources and People (MSRP). Based on the action taken by UNHCR, recommendation 6 has been closed.

[REDACTED]

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IV. ACKNOWLEDGEMENT

36. OIOS wishes to express its appreciation to the Management and staff of UNHCR operations in Malawi for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of United Nations High Commissioner for Refugees operations in Malawi

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Malawi should train its staff on the process for following up external audit recommendations.	Important	C	Action completed	Implemented
2	The UNHCR Representation in Malawi should introduce a mechanism for preparing and implementing annual project financial monitoring plans.	Important	C	Action completed	Implemented
3	The UNHCR Representation in Malawi should: (i) Introduce a mechanism for ensuring that refunds of unspent balances are done in a timely manner; and, (ii) Correctly record all 2012 project expenditures in Managing for Systems, Resources and People.	Important	C	Action completed	Implemented
4	The UNHCR Representation in Malawi in cooperation with the Regional Office for South Africa should: (i) Implement local procedures for ensuring that approval from the relevant committee on contracts is consistently obtained; and, (ii) Schedule procurement training for staff handling procurement and members of the Local Committee on Contracts.	Important	O	Receipt of documentary evidence that the mission from the regional office was successfully undertaken and procurement training was provided.	December 2014
5	The UNHCR Representation in Malawi should review the existing vendor records in Managing for Systems, Resources and People and close all duplicate vendor records.	Important	O	Receipt of evidence that duplicate vendor records in MSRP had been closed.	December 2014
6	The UNHCR Representation in Malawi should (i) schedule training on the disposal of assets for staff	Important	C	Action completed	Implemented

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of United Nations High Commissioner for Refugees operations in Malawi

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	managing assets and members of the Local Asset Management Board (LAMB); and (ii) put in place local procedures, including the use of appropriate checklists and reviews, to ensure that the LAMB operates effectively.				
7	The UNHCR Representation in Malawi should physically verify all Property, Plant and Equipment and Serially Tracked Items and update asset records in Managing for Systems, Resources and People system.	Important	C	Action completed	Implemented

APPENDIX I

Management Response

MANAGEMENT RESPONSE

Audit of United Nations High Commissioner for Refugees operations in Malawi

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Malawi should train its staff on the process for following up external audit recommendations.	Important	Yes	Regional Office South Africa (ROSA)	February 2014	As recommended, training was undertaken during the course of February 2014.
2	The UNHCR Representation in Malawi should introduce a mechanism for preparing and implementing annual project financial monitoring plans.	Important	Yes	Representative Malawi	February 2014	Training on the annual project financial monitoring was provided during the course of February 2014. The project financial monitoring plans for 2014 are in place.
3	The UNHCR Representation in Malawi should: (i) Introduce a mechanism for ensuring that refunds of unspent balances are done in a timely manner; and, (ii) Correctly record all 2012 project expenditures in Managing for Systems, Resources and People system.	Important	Yes	Associate Programme Officer	March 2014	i) As recommended, the mechanism was introduced during the course of February 2014. ii) All 2012 project expenditures have now been recovered.
4	The UNHCR Representation in Malawi in cooperation with the Regional Office for South Africa should: (i) implement local procedures for ensuring that approval from the relevant committee on contracts is consistently obtained; and, (ii) schedule procurement training for staff handling procurement and members of the Local Committee on Contracts.	Important	Yes	Representative Malawi & ROSA	December 2014	The Regional Representation in South Africa will conduct a Mission to assist the Representation with the implementation of this recommendation.
5	The UNHCR Representation in Malawi should: (i) establish a vendor database; and, (ii) review the existing vendor records in	Important	Yes	Programme Associate	December 2014	i) The vendor data already exists in MSRP and no separate database is required under the rules.

⁵ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

⁶ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

MANAGEMENT RESPONSE

Audit of United Nations High Commissioner for Refugees operations in Malawi

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	Managing for Systems, Resources and People and close all duplicate vendor records.					ii) The Representation in Malawi has reviewed and identified the duplicate vendor records. The duplicate vendors will be deleted from Managing for the Systems, Resources and People (MSRP).
6	The UNHCR Representation in Malawi should (i) schedule training on the disposal of assets for staff managing assets and members of the Local Asset Management Board (LAMB); and (ii) put in place local procedures, including the use of appropriate checklists and reviews, to ensure that the LAMB operates effectively.	Important	Yes	Representative Malawi	October 2013	i) Training on Warehousing, Inventory and Asset Management took place at the Regional Office in South Africa during the course of October 2013. ii) A mechanism has been put in place for Local Asset Management Board (LAMB) meetings to take place on a quarterly basis.
7	The UNHCR Representation in Malawi should physically verify all Property, Plant and Equipment and Serially Tracked Items and update asset records in Managing for Systems, Resources and People.	Important	Yes	Programme Associate	January 2014	The Representation has updated the Property, Plant and Equipment and Serially Tracked Items and updated accordingly the asset records in the Managing for Systems, Resources and People (MSRP).