Internal Audit of the Malawi Country Office

June 2019

Office of Internal Audit and Investigations

oiai

Report 2019/09

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Malawi Country Office. The audit assessed the office's governance, risk management and internal control with a focus on key risks and activities. The audit team visited the office from 12-23 November 2018, and the audit covered the period from January 2017 to November 2018.

The 2012-2018 country programme, which was coming to an end at the time of the audit, had been extended by a year to align with the UNDAF[1] and with the Malawi Growth and Development Strategy (MGDS) II. The programme had four main programme components: *Survival*; *Development*; *Protection*; and *Participation*. There was also a cross-sectoral component. The original total approved budget for the country programme was US$ 261.9 million, of which US$ 46.9 million was regular resources (RR) and US$ 215 million was Other Resources (OR). Regular Resources are core resources that are not earmarked for a specific purpose and can be used by UNICEF wherever they are needed. Other Resources are contributions that may have been made for a specific purpose such as a programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as Other Resources), up to the approved ceiling.

The budget for the period 2017-2018 was US$ 134.7 million, of which US$ 109.3 million was OR and US$ 25.4 million RR. In addition to this, UNICEF Malawi had sought emergency funding to address the ongoing impacts of the El Niño drought and the La Niña floods, including the health-related implications for children. This emergency funding requirement for 2017 was US$ 23.2 million, of which US$ 5.3 million had been raised – leaving a funding gap of US$ 17.9 million (77 percent) at the end of the year.

The UNICEF country office is in the capital, Lilongwe; there are no zone offices. As of October 2018, the office had a total workforce of 138 approved posts (108 fixed and 30 temporary). These included 42 international professionals, 50 national officers, 38 general service posts and eight UN Volunteers. (A country office's posts may change in a new country programme, and a new programme cycle was about to begin.)

Malawi was ranked 171 out of 189 countries in the 2017 Human Development Index, with widespread poverty. A survey carried out by the Government of Malawi and UNICEF in 2018[2] found that about 63 percent of children suffered from multi-dimensional poverty (they suffer from deprivation in several key areas, for example health, education and nutrition). Over one third of Malawian children are stunted, compromising their health, well-being and development potential and contributing to cognitive impairment. Child marriage rates in Malawi are among the world's highest; almost half of all females marry before reaching the age of 18 years and nearly 10 percent before reaching the age of 15.

The audit noted several controls that were functioning well. The office's priorities and expected results were clearly defined and communicated to staff. The office regularly monitored of the priorities. The quality of donor reports had improved; the regional office had carried out a quality review of a sample of

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[1] The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and a national Government, setting out the latter's chosen development path, and how the UN will assist.
[2] Malawi Ministry of Finance and Economic Planning and UNICEF, *Child Poverty in Malawi*. Available from https://www.unicef.org/malawi/reports/child-poverty-malawi-2018-brief.

four donor reports issued in 2017 and rated them exemplary. Further, all 2017 donor reports were submitted on time. The office was the best performer in the East and Southern Africa Region on donor reporting and management of donor relationships in 2017. The office raised US$ 295.7 million (85 percent) of the planned amount of US$ 350 million during the 2012-2018 country programme, including emergency funding to deal with El Niño drought and the La Niña floods.

UNICEF Malawi was one of three country offices worldwide that had piloted a UNICEF innovation in programming, Guidance for Risk-informed Programming (GRIP), and a workshop had been held in May 2017 with a view to informing programme design and work planning. The objective of GRIP is to build controls into programming to mitigate child-centred risks such as armed conflict, epidemics, economic downturns and food-price hikes, and climate change and environmental degradation. GRIP requires collaboration with multiple child-rights stakeholders (including children, adolescents and youth).

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office and DHR have agreed to take a number of measures. One addressed to the office is rated as High Priority (that is, requiring immediate management attention). This is as follows:

- The office agrees to ensure that institutional contracts are not issued for key management staff functions for an extended period.

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over the country office were generally established and functioning during the period under audit.

The Malawi country office, DHR and OIAI intend to work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI) June 2019

Contents

Objectives

The objective of the audit was to provide reasonable assurance that there were adequate and effective governance, risk management and control processes to ensure: achievement of the office's objectives; reliability and integrity of financial and operational reporting; effectiveness; efficiency of operations and economic acquisition of resources; safeguarding of assets; and compliance with relevant policies. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

This report presents the more important risks and issues found by the audit and the measures agreed with the client to address them. It does not include lower-level risks, which have been communicated to the client in the process of the audit.

Audit observations

Oversight committees

Committees are a key part of the governance structures of a UNICEF country office, and their effectiveness is critical to good governance. They involve staff in the development and delivery of the programme, and ensure diverse opinions are represented in decision-making. To ensure their effectiveness, it is important that the committees' terms of reference (ToRs) and membership are appropriate.

The Malawi Country Office had all the statutory committees in place, including the important Country Management Team (CMT), the Programme Management Team (PMT), and the Emergency Management Team (EMT). There were a few others.

The audit noted the following.

Joint Consultative Committee (JCC): The JCC is the body through which management liaises with an office's staff association. It had met four times in 2017, and three times in 2018 (as of 31 November). Its ToRs stated that its secretariat should follow up on any recommendations it made, and report to the following meeting on progress in their implementation. The minutes showed that several recommendations had been discussed in numerous meetings but had not been closed as of the time of the audit. However, the longstanding recommendations had no specific timelines, making it difficult to ensure timely implementation. There were also recommendations that had been removed from the minutes without a proper record of what action had been taken.

Property Survey Board (PSB): An office's PSB is responsible for recommending the disposal of property, and this includes deciding the value of any UNICEF items that may have been damaged or lost while in the care of a staff member or consultant. The decisions of the PSB should be recorded in the minutes of its meetings.

There had been four PSB meetings during the period under audit. The minutes noted that there had been various instances of losses of UNICEF property by staff and consultants. However, the recovery of the cost of this property had been delayed because the office did not have a clear mechanism to value items lost, and the cost recovery for some lost items that had begun in August 2018 was still ongoing at the time of audit in November. Delays in the recovery of costs increased the risk of loss due to departure of staff and consultants.

Contract Review Committee (CRC): UNICEF requires that members and alternates of an office's CRC be UNICEF staff members.[3] However, for up to two years prior to September 2018, the CRC had been chaired by a retired UNICEF staff member who was serving temporarily as Chief of Operations under an institutional contract (see also following observation).

The CRC is also responsible for ensuring that the interests of UNICEF are protected by providing a competent, independent and unbiased review of proposed contract. It should also focus its review in a way that leads to a contract recommendation. As noted in the CRC minutes, the committee had raised concerns related to an extension of the Chief of Operations' own contract, as the contractor was performing a staff member's functions for two years. Despite this, management had approved the extension. The audit noted that the contractor had recused himself from the CRC discussions related to the extension of his contract. Given that the institutional contract was issued to the individual who was chairing the CRC, there was, despite his recusal, an issue of perceived lack of independence of the CRC's oversight function, including for the other CRC meetings chaired by the contractor. Further, this exceptional instance of having a non-staff member chair the CRC had not been recorded, justified and reported to the regional office, which is responsible for oversight, or to the relevant HQ division as owner of the CRC policy.

Agreed action 1 (medium priority): The office agrees to establish a procedure to ensure that any exceptions to UNICEF policies are properly documented, justified and reported promptly to the business owner of the policy as appropriate, in order to mitigate risks and comply with the UNICEF regulatory framework.

Responsible staff members: Chief of Operations
Date by which action will be taken: 31 July 2019

Extended use of a contractor in a management position

The 2012-2016 country programme had been extended to December 2018 to align it with the development of the new Malawi Growth & Development Strategy (MGDS III). Given the extension, the increased throughput across all funding types, and a continued high fiduciary risk, the office needed to ensure all its functions remained fit for purpose for the remainder of the country programme.

One of the changes it wished to make was to upgrade the Chief of Operations position, which had fallen vacant at the end of October 2016, from P4 to P5 level. This was proposed in a PBR on 1 March 2017.[4] However, the office had not received any feedback from the regional office on the proposed change. In the meantime, it postponed filling the position and retained a UNICEF retiree (at P5 level) through an institutional contract to carry out the functions of Chief of Operations from October 2016 to the end of November 2018. This led to additional costs, as the office had retained the contractor for two years at P5 level and the position was subsequently filled in at a P4 level.

[3] See UNICEF Financial and Administrative Policy 5: Supplement 6 (Contracts Review Committee).
[4] The programme budget review (PBR) is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee. A PBR can also be held if, as in this case, an office wishes to make changes to its structure during a programme cycle.

The company contracted to fill the position on this interim basis recommended a retired UNICEF staff member, a former regional Chief of Operations, who was given an institutional contract as Chief of Operations in the country office. Although meant to be a temporary solution, the contract had been extended three times. The office told the audit that it had done this rather than proceed with recruitment at P4 level while awaiting a response to the PBR submission to regrade the post. This explanation is questionable since the office eventually filled the Chief of Operations position at a P4 level in June 2018, prior to this audit. While asserting that it had not received feedback from the PBR, the office also said its decision to contract the individual had been fully supported by the regional office.

This meant that there was a contractor performing a staff function for an extended period till the end of the contract on 30 November 2018, which is against UNICEF guidelines. Discussion with DHR indicated that recruitment of a retiree for more than six months could have been done through a temporary contract.

UNICEF policy prohibits institutional contractors from supervising staff. To avoid the appearance of noncompliance with this policy, for operations staff performance management purposes, the office had identified the Supply and Procurement manager as Officer-in-Charge, Operations. However, the performance appraisal of this staff member was based solely on feedback provided by the contractor, although it was recorded in the system as done by the procurement and supply manager. The audit noted that the same process had been followed for all other staff that reported to the Chief of Operations, who as a contractor could not have access to the system and was therefore not accountable for performance evaluations that he had in practice done himself.

Agreed action 2 (medium priority): The Division of Human Resources (DHR), with assistance from the regional office and country office, agrees to review the lessons learned arising from the non-compliance with UNICEF policy and take appropriate corrective action. It should also assess the extent of similar practices within the organization and refine its policy and procedures to prevent further abuse.

Responsible staff members: Chief, Talent Acquisition; Chief, Analytics and Operations; and Chief, Policy and Administrative Law/DHR
Date by which action will be taken: 31 December 2019

Agreed action 3 (high priority): The office agrees to ensure that institutional contracts are not issued for key management staff functions for an extended period.

Responsible staff members: Chief of Operations
Date by which action will be taken: 31 July 2019

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, an office should follow a structured and systematic process for the assessment of risk to its objectives and planned results. It should then incorporate action to manage those risks into workplans and work processes.

The office had updated its risk assessment, which defined the root causes and impacts for each risk. The action plan included assigned responsibilities, timelines and indicators for completion. Risk areas such as waste and misuse of resources, funding and external stakeholder relations, governance and accountability and human resources were rated high risks in both 2017 and 2018. For those risk areas, the office could have been more thorough in linking the planned mitigation measures with the root causes of the risks they were expected to address. For example, under governance and accountability, the office noted, as a risk, that operations were not integrated into programmes; but this was not specifically addressed by planned mitigation measures. Further, there were no targets to help the office determine whether the mitigating measures implemented were sufficient to manage the risks identified.

Further, the office-wide risk assessment omitted some key risks identified in various other documents. For example, the CPD[5] cited risks that included inadequate leadership, resources, coordination and capacities, especially among frontline workers and decision-makers. The office's risk assessment had also not identified specific emerging risks linked to innovations in programming.

The audit also noted that the office faced significant changes to its programming and planning in the upcoming programme cycle because of the implementation of Delivering as One (DaO) in Malawi.[6] During implementation of the 2019-2023 UNDAF, the UN bodies in the country expected to more closely align and integrate their activities. The UNICEF office told the audit that all UN agencies would move to joint programming and joint work planning with effect from January 2019. However, the risks related to this major change, and the measures to mitigate them, were not mentioned in the various 2019-2023 UNICEF programme planning documents reviewed by the audit.

Finally, none of the documents reviewed defined the office's risk tolerance level in key risk areas.

Agreed action 4 (medium priority): The office agrees to, with the guidance of the regional office, reinforce oversight over risk management; and to take the following specific steps:

i. Ensure all key risks identified in various documents are explicitly included in the office-wide risk assessment and action plan.
ii. Ensure clear linkages between the root causes of identified risks in the office-wide risk assessment and the planned mitigation actions.
iii. Establish targets against the indicators used to measure the implementation of risk-mitigation actions, to assess progress in managing risks.
iv. Identify emerging risks linked to the new programme planning environment (including the ongoing UN Reform and the expected new UNDAF guidelines) and their implications for results reporting and humanitarian appeals; and implement mitigation measures to ensure timely, good-quality programming.

Responsible staff members: Chief of Operations
Date by which action will be taken: The office reports the actions as having been completed in March 2019.

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[5] The CPD is the Country Programme Document, which sets out the office's programme for the country programme cycle. It is submitted to UNICEF's Executive Board and, once approved, becomes the official blueprint for the country programme, which normally runs for five years.
[6] DaO aims at a more unified and coherent UN structure at the country level, with one leader, one programme, one budget and, where appropriate, one office. The aim is to reduce duplication, competition and transaction costs. Originally launched in 2007 in eight pilot countries, it is now being adopted in an increasing number.

Fraud risk management

The audit team noted that various cases of suspected fraud and irregularities involving staff, contractors and implementing partners had been submitted to the Office of Internal Audit and Investigations. These could lead to loss of funds and/or lack or delayed implementation of programme activities. The office itself rated the risk of fraud and corruption as high in its own risk assessments in 2017 and 2018. The office did not however conduct a fraud risk assessment with a comprehensive action plan that would identify and address its vulnerabilities in this respect. Further, the audit found insufficient evidence to demonstrate that the office proactively advocated the adoption by implementing partners of robust anti-fraud policies.

Since issue of the UNICEF Anti-Fraud Strategy by DFAM in August 2018, the office had established a fraud risk management committee (FRM), the ToRs of which were submitted to the CMT in October 2018. However, according to the ToRs, the FRM committee had limited specific responsibilities for fraud prevention, with three of its total 13 roles focused on it. The other roles focused on a variety of areas, including preparation for audit activities, ensuring follow-up, implementation and sustainability of recommendations arising from audits, peer reviews and detection of waste and abuse. There were four meetings held in 2018 and all focused-on audit preparation and follow-up of peer-review recommendations, not fraud.

In the view of the audit, the FRM could have focused more on fraud, given that fraud and safeguarding were classified as high risks. Further, one of the two donors met indicated that it would have liked to have systematic and timely information regarding fraud and safeguarding concerns.

Agreed action 5 (medium priority): The office agrees to, with the guidance of the regional office, reinforce oversight over fraud-risk management, and take the following specific steps:

i. Revise the ToRs of the FRM committee to focus entirely on fraud risk management, and include in its ToRs the oversight of a fraud risk assessment, and regular reporting to the CMT.
ii. Ensure that the FRM committee provides advice to the CMT on the office's fraud risk in key areas, and that risk responses or mitigating actions are aligned with fraud risk tolerance levels.
iii. Define a mechanism to report any fraud, theft and safeguarding-related cases to donors considering UNICEF global policy and procedures.

Responsible staff members: Chief of Operations
Date by which action will be taken: 31 July 2019

PSEA and ethics

UNICEF's mandate includes a special responsibility to serve and protect children. Sexual exploitation and abuse constitute acts of serious misconduct. In 2003, the Secretary-General issued a Bulletin (ST/SGB/2003/13) applicable to all UN staff, which set out extraordinary measures for protection from sexual exploitation and abuse (PSEA). In February 2017, the current Secretary-General issued a strategy[7] to improve the UN's system-wide approach to preventing, detecting and responding to SEA.

[7] Secretary-General's Bulletin *Special measures for protection from sexual exploitation and sexual abuse* (ST/SGB/2003/13).

The minutes of a UNCT[8] meeting held on 23 August 2018 mentioned a need for the UN in Malawi to have one common approach on PSEA and acknowledged that UNICEF and WFP had already communicated with the Government on PSEA. However, there was as yet no UN-wide mechanism in place for reporting and monitoring instances of PSEA as per the established UN PSEA protocol. The minutes also recognized a need to think through how to handle reports of abuse.

UNICEF has a zero-tolerance policy for child safeguarding violations and sexual exploitation and abuse perpetrated by employees, personnel and sub-contractors. The audit looked at how the country office had responded to PSEA in the Malawi context.

In 2017-2018 the office had held all the mandatory training sessions on ethics and integrity, PSEA and Prevention of Sexual Harassment and Abuse of Authority. The office stated that it had organized regular orientations for inexperienced staff members, consultants, interns and UN Volunteers. Support groups had been set up, and a staff member appointed focal point to engage continuously with staff and partners in different areas on ethics and harassment/sexual harassment.

However, there was no evidence that field monitors, or accountants seconded to selected Districts,[9] were trained in ethics and PSEA (although the office was looking at sharing Agora training in Ethics and PSEA with all partners and contractors). The audit also noted that while there was a systematic reference check for all external and internal candidates for staff posts, this was not done for local contractors or staff on temporary contracts.

Agreed action 6 (medium priority): The office agrees to, with support from the regional office and the Field Results Group (FRG), implement UNICEF PSEA policy and procedures. More specifically, it should arrange mandatory training including ethics and PSEA for contractors and implementing partners, and conduct reference checks on local contractors, including consultants, accountants and field monitors.

Responsible staff members: Chief of Human Resources; Quality Assurance Officer
Date by which action will be taken: 31 December 2019

Work planning

UNICEF country offices plan programme implementation through annual workplans that are developed together with key implementing partners. The workplans should be signed by national-level Government counterparts, and should describe the planned outcomes and outputs,[10] and the linkages with the UNDAF, Sustainable Development Goals and national priorities. They should also define the activities, the names of partners, estimated costs of activities and outputs, planned inputs and the calendar of implementation.

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[8] UNCT stands for UN Country Team, and is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its terms of reference, and division of responsibilities with individual agencies, vary from country to country.
[9] See observation *Contacted accountants*, p15 below.
[10] UNICEF programmes plan for results on two levels. An outcome is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of a school or clinic, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

The audit reviewed a sample of the office's 13 workplans for 2017-2018. These had been signed by national-level Government counterparts. However, two of the nine sampled workplans were signed late (in April and July 2017; workplans should normally be signed within the first quarter). This could delay programme implementation or lead to implementation of unapproved workplan activities. The office said that for 2019, the Government would sign only joint workplans managed by the UN Resident Coordinator's Office.

Each workplan defined the inputs needed for the year and specified the contracts for services and the supplies that would be needed, and the timelines, implementing partners, baselines and targets. However, three RWPs did not include linkages with the UNDAF; other UN agencies involved were not always specified; several baselines and targets were not fully described, and in several workplans, the means of verification were not specified. The office said that this was mainly due to limitations in the 2017-2018 workplan templates that it planned to correct in the 2019 workplan template.

The office told the audit that innovation had been stepped up in 2017. Some innovative activities, such as the use of drones for delivery of health services, were not included in the respective sectoral workplans but in the Innovation workplan. There was a need to ensure that these specific innovation activities were formally accepted by the Government through the signing of the related workplan.

Finally, in September 2018 a UNCT[11] minute of a meeting noted that a template was being designed for the Joint Annual Workplans (JAWPs); these are joint workplans of more than one UN agency covering a given sector and are part of Delivering as One. This is a positive development in principle, but the meeting acknowledged that the suggested change required a lot of involvement and adaptation from staff, and strong leadership from the UNCT itself. The risks related to this, and the measures to mitigate them, had not been defined. A recommendation is included in the observation *Risk management*, above.

Agreed action 7 (medium priority): The office agrees to fully describe and specify targets, baselines and means of verification; and include relevant linkages to the UNDAF in all workplans.

Responsible staff members: Deputy Representative
Date by which action will be taken: March 2020

Results reporting

The office reported results against various frameworks, including the humanitarian appeal, the targets in the annual workplans, and the strategic indicators used by the regional office. Like all UNICEF offices, it also reported results in the Results Assessment Module (RAM), an online portal that allows quick access to, and comparison of, results across the UNICEF network.

The office had made significant adjustments to assist measurement of results and align the various results frameworks being used. However, some output indicators had no baselines, targets or means of verification, which constrained the measurement of progress (see also observation *Work planning*).

[11] UN Country Team, an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its terms of reference, and division of responsibilities between individual agencies, vary from country to country.

The audit reviewed results reported in RAM for 2017, and for 2018 as of mid-year. It found data were available for most indicators from the means of verification the office had identified. The RAM for year ended 2017 showed that 14 outcomes were rated as on-track, and two (*HIV and adolescents*, and *Social Policy*) as constrained. However, the annual review conducted by the office had noted some weaknesses in the data collection and reporting systems; there were data-quality issues, especially where various sources were used to report on same indicator. There were also weaknesses in the accuracy of disaggregated data and targets.

Agreed action 8 (medium priority): The office agrees to update its processes to improve the accuracy of results reporting in the Results Assessment Module. It should also ensure that all indicators have baselines, targets and means of verification from recent sources, and use them for reporting.

Responsible staff members: Chief of Planning, Monitoring and Evaluation
Date by which action will be taken: The office reports the action as having been implemented in March 2019

Cash transfer management

UNICEF Malawi had released US$ 6.1 million in direct cash transfers (DCTs) during the period under audit.

The audit reviewed a sample of 21 cash transfer transactions, amounting to US$ 530,000. It noted delays in the UNICEF internal process. The office had established a target of 10 days from the date of receiving a request to payment being made, but the processing time for the sampled transactions varied between 18 and 28 days. Also, one of the DCTs sampled had been for a training course, but there was no evidence that participants' attendance had been checked properly. There was one signature for several days' training; the participants were not asked to sign daily attendance. There was thus inadequate assurance of daily attendance. (The HACT[12] and Finance teams confirmed that this was on the UN HACT team's agenda.)

The audit also noted that the office had contracted an accountancy firm to disburse cash on its behalf to implementing partners to pay DSA and costs related to workshops and training activities. This was appropriate in principle, as UNICEF Malawi was operating in an environment where most of its Government partners had been rated as high risk and funds could not be transferred directly to them. However, the audit noted that the contract and accounting procedures used for this were not in line with UNICEF guidance. The office had devised a third-party management contract for services under which the contractor received the total amount it was to disburse, plus its own fee. The contractor invoice for the services rendered was based on the number of Cash-in-Transit (CIT) transactions for the month. However, although the bulk of the funds were to be released to implementing partners, they were incorrectly recorded as one payment made to the contractor, rather than two payments – one as cash transfers to implementing partners, and the other as the contractor's own fee.

The audit also noted that the office had written a CIT standard operating procedure that required Government partners to use the FACE[13] form to request funds as normal for a DCT, whereas in fact the funds would be paid to a third party. This is permissible under UNICEF "permitted payee" policy but this

[12] Harmonized Approach to Cash Transfers. See observation *Assurance activities*, p13 below.)
[13] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers, and by UNICEF to process these requests.

should be authorized by the Government partners, and should be registered in the UNICEF accounting system, VISION, so that the transfer is correctly recorded. This was not done. There was no formal agreement with the Government partners that funds should be disbursed via a third party.

Further, the audit noted cases where there had been delays or cancellations of workshops that resulted in the 'CIT' being kept by the contractor and reconciled on monthly basis. UNICEF policy is that if funds have been disbursed to a partner for planned programme activities that have not been implemented, this should be handled as a refund. This had not been done.

The office stated that it had discussed the use of "permitted payee" option with the regional office, HQ divisions and UNICEF's Global Shared Services Centre (GSSC), and that there had been several communications regarding this. But there was no request for approval on file, and there was no evidence that this unique "permitted payee" contracting type had been discussed with Supply Division, or that any exception to the supply policy had been sought, or appropriate approval and guidance received.

The contracting process was reviewed by a resubmission to the contract review committee (CRC). The CRC recommendations stated that the contractor was to be paid/ reimbursed for completed activities and all payments should be based on deliverables and actual incurred overheads and costs.

Agreed action 9 (medium priority): The office agrees to:

i. Ensure timely processing of requests for funds from implementing partners and obtain sufficient evidence to support clearance of direct cash transfers.
ii. Work with the regional office, the Division of Financial and Administrative Management (DFAM) and Supply Division to review and correct the contracting type of cash disbursement used for disbursing funds directly to implementing partners, and the reporting of the use of funds; and ensure compliance with relevant UNICEF policies, with any exception approved at an appropriate level.

Responsible staff members: Chief of Operations
Date by which action will be taken: 31 December 2019

Assurance activities

The Harmonized Approach to Cash Transfers (HACT) is a set of procedures used by several UN agencies to provide assurance that cash transfers to partners are used as intended. Its principle is to do a risk assessment (a 'micro-assessment') of the specific partner and manage the relationship with the partner accordingly. This is meant to cut down on bureaucracy, but without reducing vigilance in cases where fraud seems more likely. The results of a micro-assessment should be used to help determine the level and frequency of assurance activities used with that partner. These activities include programmatic visits to review progress on funded activities. They also include spot checks, scheduled audits and, where necessary, special audits.[14]

[14] UNICEF HACT Procedures define a spot check as a review of financial records to obtain reasonable assurance that amounts reported by implementation partners on the FACE form are accurate. A scheduled audit is defined as a systematic and independent examination of data, statements, records, operations and performance of an implementing partner carried out by an external service provider. A special audit is an audit performed when

HACT also involves a 'macro-assessment', which is an assessment of the public financial management systems in a country that enables a decision as to whether the Supreme Audit Institution of the Government can be used for audit purposes. In the case of Malawi, a macro-assessment had been completed in July 2016. It noted that lessons were being learned because of cash scandals that had taken place, and several steps had been taken to improve public financial management systems. These had included public service reforms, internal audits, weekly bank reconciliations, production of quarterly financial statements, and investigations. However, the overall risk was rated as significant, and the audit's discussions with a donor confirmed the need for strong assurance activities and programme monitoring of government partners.

The current UNDAF noted that HACT allowed the UN to focus its effort on strengthening national capacities for management and accountability, with a view to gradually shifting to the use of national systems and procedures.

Meanwhile the UNICEF office had drawn up a comprehensive assurance plan that included assurance activities conducted by third parties, including programmatic visits, spot checks and audits. Overall HACT implementation had met or exceeded the minimum requirements in 2017, with 56 instead of 49 planned micro-assessments carried out, 62 out of 65 planned spot checks, and 26 scheduled audits, one more than originally planned. There were two special audits. The number of programmatic visits planned had been 391; in fact, 424 were undertaken.

HACT has been adopted by several UN agencies, not just UNICEF, and it is intended they should make effective use of resources by cooperating – for example, through joint micro-assessments of partners they have in common. In Malawi all micro-assessments were conducted jointly through the UN HACT Working Group. The office shared 50 partners with UNDP and/or UNFPA, and micro-assessments for 39 partners were completed jointly with one of those two.

The office had a dedicated HACT team and held quarterly hands-on training that focused on gaps identified during assurance activities. The reports of those activities were shared with relevant Government implementing partners, and action plans developed in response to the recommendations arising from them.

The audit did note one or two areas that could be improved further. Agreed actions arising from assurance activities were recorded in spreadsheet, but the file provided to the audit was incomplete; it included only scheduled audits. The office did have a central repository for assurance activity reports, and followed up recommendations from assurance activities. However, the audit could not confirm how the office monitored implementation of key recommendations made following micro-assessments, spot checks, special audits and programmatic visits. The office said it intended to address this with eTools (a suite of applications that UNICEF is progressively rolling out to help offices with various tasks).

The audit also reviewed a sample of eight programme documents (PDs) and PCA[15] review minutes and

significant issues and concerns are identified during the programme cycle, often from findings of programmatic visits and spot checks.

[15] PDs are the documents a country office prepares with its partners that form the basis of a proposed partnership. The Programme Cooperation Agreement, or PCA, is the formal partnership agreement. Both are subject to review by an office's PCA review committee.

noted that in some instances the number of assurance activities included in the PDs exceeded the number in the HACT assurance plan. This is because the latter complies with the FRG minimum requirements, while the PD reflects the number the office thinks necessary after a specific risk assessment – which may be greater. However, alignment between the two is useful for planning assurance activities and allocating resources, and for monitoring the extent to which the necessary assurance activities have taken place.

Agreed action 10 (medium priority): The office agrees to:

i. Fully use eTools as a central repository of assurance-activity reports, and to follow up all key recommendations arising from all assurance activities.
ii. Ensure the number of planned assurance activities included in the programme documents are clearly reflected in the office-wide assurance plan to enable accurate oversight over assurance activities.

Responsible staff members: Deputy Representative
Date by which action will be taken: The office reports the action as having been implemented in March 2019

Contracted accountants

As an extra risk-mitigation and HACT-related activity, the office had placed accountants in 10 of Malawi's Districts. These accountants were also intended to build capacity for financial management amongst the implementing partners.

The accountants were supplied and managed by a contractor (a major accountancy firm) that provided a consolidated report on building financial management capacity activities conducted in each of the 10 districts. These field accountants were not part of HACT or the office assurance plan as such, but aimed to provide extra assurance over and above them. The placement of the contracted accountants was fully supported by a donor. The audit noted that this initiative was innovative, and that the UN in Malawi was considering replicating the model.

The audit reviewed two reports from the accountants. They included a summary of issues identified in each district and provided recommendations. From discussions with the HACT team, the audit found that the office reviewed key recommendations included in the reports, but did not monitor follow-up actions. The audit also met one of the contracted accountants while on a field trip to Salima District and noted that the accountant provided support to the district's finance manager in various areas that included preparing bank reconciliation and making payments. In the audit's view, these two tasks were performed by the accountant, and there was a need for proper segregation of duties with the district's finance manager. This occurred because building capacity for financial management involved, at times, doing work with the districts. The contracted accountant also commented the need for refresher training on HACT procedures.

Given that this use of accountants for assurance and capacity-building activities was an innovation that might be replicated, it was necessary to identify the key risks involved and the corresponding mitigation measures. There had not yet been a risk assessment of this type.

Agreed action 11 (medium priority): The office agrees to:

i. Ensure accountants receive refresher training on HACT procedures as needed.
ii. Ensure adequate segregation of duties in work performed by contracted field accountants in Districts.
iii. Consolidate and share with implementing partners, as part of capacity building, key issues and recommendations included in various accountant's reports, and monitor their implementation.
iv. Hold discussions with the regional office and the Field Results Group on how to include the contracted accountants in HACT assurance reviews, so that their performance is monitored; and if necessary define key risks and mitigation measures associated with this process.

Responsible staff member: HACT Specialist
Date by which action will be taken: 31 December 2019

Programme monitoring

UNICEF offices monitor programme implementation through several mechanisms. Some are under HACT, and provide assurance that partners are using programme funds for the intended purposes; these activities were reviewed in the observation *Assurance activities*, above. However, country programmes use several other tools for monitoring the broader performance of the programme, including periodic programme reviews with partners and field-monitoring visits.

The audit noted the following.

Programme reviews: During the office's mid-year review in July 2017, substantive discussions were held on the country programme that was ending, and on emerging priorities for the forthcoming 2019-2023 country programme. As part of the preparation of the new programme, UNICEF Malawi involved the programme and operations staff, regional and headquarters staff, and implementing partners, including government, NGOs and community-based organizations, academic institutions, and end-users. Each section produced a report. There was also a consolidated report that provided an in-depth review on game changers and difficult trade-offs that UNICEF Malawi might face during the next programme cycle. Annual programme reviews were also carried out with Government partners. These reviews identified what needed to be strengthened, covering mainly data-related issues such as data quality and data disaggregation. However, they did not specify key actions that were to be integrated in the 2018 workplans.

Field monitoring: The office conducted several programmatic visits as part of the assurance plan; these were monitored by the HACT team (see observation *Assurance activities*, above). In addition, there were field-monitoring visits. However, the office-wide travel plan did not clearly link field monitoring with HACT programmatic visits or define the relationship between those visits and field monitoring. It would also have been helpful if this overall plan had included the activities of third-party monitors at district level, and those of the contracted accountants.

The audit reviewed 15 field-monitoring reports and found that most included recommendations without timelines, rating or assigned responsibilities. At the time of the audit, there were also no office-wide mechanisms to track the status of implementation of key recommendations arising from all field-monitoring visits conducted by the different sections. This meant the office had no assurance that key recommendations had been implemented effectively. The office said that steps were being taken to implement eTools to centralize all types of field-monitoring reports.

Agreed action 12 (medium priority): The office agrees to:

i. Ensure that annual programme reviews specify key actions to be taken in the subsequent year to address any key areas identified as needing strengthening.
ii. Clarify the link between field-monitoring reports and HACT programmatic visits, using E -tool as a central database of all field-monitoring reports, and track the implementation of key recommendations.

Responsible staff member: Deputy Representative
Date by which action will be taken: 12i, 31 December 2019; and 12ii, the office reports the action as having been implemented in March 2019.

Contract management

In 2017, the Malawi Country Office had 253 service contracts with a total value of US$ 12 million, accounting for 32 percent of supplies and services (valued at US$ 37.7 million) received during the year. In 2018, there were 170 contracts for services valued at US$ 8 million, which was 23 percent of the total value (U$ 34.4 million) of supplies and services received.

The office had a contract-for-services plan, part of the two-year rolling workplan. Offices do normally have such a plan for supply inputs, but not for services, and the audit considered this a positive practice, allowing timely identification and procurement of the necessary inputs.

Several of the office's workplans included services, such as field monitors, that were needed for a year or more. However, the duration of their contracts was often very short, with frequent renewals. A review of a sample of 16 long-term consultants found seven in which the consultants were awarded multiple (i.e. three to five) contracts in a year. In addition to creating additional process, issuing short-term contracts had also reduced the office's ability to retain some consultants who had obtained longer-term offers elsewhere. The programme staff acknowledged that the process was inefficient, as it required the office to renew the contracts two or three times during a period of service. However, it told the audit that the short-term contracts for field monitors were linked to funds availability and the duration of the grants from which they were funded.

Agreed action 13 (medium priority): The office agrees to, with support from the regional office, further advocate to donors the benefits of extending the duration of grants to prevent recurrent renewal of contracts.

Responsible staff members: Deputy Representative
Date by which action will be taken: 31 December 2019

Telephone and fuel

The total cost of telephone usage and data communication amounted to about US$ 308,000 during the period audited. There were 98 telephone numbers in 2017, reduced to 78 numbers in 2018. In 2017, the office telephone service provider had introduced a new system that was not configured to give the office adequate information regarding telephone usage, detect unauthorized use of the telephone or assess the accuracy of the billing system.

Prior to August 2018, the office had paid telephone bills and then reconciled the invoices for individual telephone numbers and ensured that the calls were properly charged and billed to deter fraud and abuse. The office said this had resulted in several anomalies in telephone usage and billing. It conducted a review and 22 telephone numbers were deactivated in January and February 2018, but after February, invoices received included lines that had been suspended. The office review had showed control weaknesses that could have allowed the office to be incorrectly charged, but at the time of audit, the review and reconciliation was not finished, and the audit could not confirm that no payments were made against unknown numbers.

There were also significant delays in billing staff. At the time of audit in November 2018, the telephone bills for April to July 2018 were being processed. This led to staff being billed large amounts at once, so they could not always pay in one instalment. In some instances, these large amounts charged to staff required more time to confirm the amounts charged.

In August 2018 the office introduced the use of prepaid data and voice mobiles, and a new procedure was implemented. The procedure did not however clearly define the roles and responsibilities of Information and Communication Technology (ICT), which provided the numbers, and Administration.

Fuel management: In 2017, the office undertook a review of the management of the use of fuel cards. The review revealed anomalies in fuel-card management and vehicles' fuel consumption. In 2017, the fuel purchased amounted to US$ 141,000; in 2018 it had been US$ 214,000.

The audit was told that, because of the review, several actions had been taken that included changing the service provider, adopting a new fuel-card system and drafting a standard operating procedure (SOP) for the revised system, which had been introduced in March 2018. At the time of audit, however, the SOP had not yet been approved by the Representative. The audit reviewed the draft SOP and noted that it identified several significant risks without giving mitigation measures to address them.

Agreed action 14 (medium priority): The office agrees to:

i. Ensure adequate oversight and control over telephone management through a review of telephone usage and accuracy of the billing process; ensure that payment is not made against unknown numbers; and confirm outstanding balances and finalize recovery from staff.
ii. Finalize and approve the draft Standard Operating Procedure on fuel management and ensure that risks identified are adequately mitigated and staff responsibilities are clearly defined.

Responsible staff members: Chief of Operations
Date by which action will be taken: 31 December 2019

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal auditing practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit and will ensure that the relevant bodies are informed. This may include asking the Investigations section to act if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented in the report summary fall into four categories:

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions, the office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIAI concluded that the office' governance, risk management and internal controls needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed **significant** improvement to be adequately established and functioning.