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OIOS AUDIT OF UNHCR OPERATIONS IN MALAWI

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EXECUTIVE SUMMARY

In May 2004, OIOS conducted an audit of UNHCR Operations in Malawi. The audit covered activities with a total expenditure of US\$ 1.7 million in 2002 and 2003. Exit Conference Notes were shared with the Chief of Mission in May 2004, on which comments were received by May 2004. *The Chief of Mission has accepted most of the recommendations and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR operation in Malawi as average, it was adequately run but although the majority of key controls were being applied, the application of certain important controls lacked consistency or effectiveness. In order not to compromise the overall system of internal control, timely corrective action by management is required.

Programme Management

- For the three partners reviewed, reasonable assurance that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements could only be taken for the governmental partner the Department of Disaster Preparedness, Relief and Rehabilitation.
- The Malawi Red Cross Society (MRCS) did not have any accounting system to management and control UNHCR funds, and OIOS could not obtain assurance as to the appropriateness of the expenditure recorded on the SPMRs. No budgetary controls were established which resulted in numerous budgetary overruns, ranging from 40 to over 200 per cent. Internal controls were deficient, with cheques issued without due regard of the available bank balances resulting in the bouncing of cheques. MRCS 'loaned' UNHCR funds to finance other donors' projects, without implementing a proper tracking mechanism to account for them.
- The Jesuit Refugee Service had not properly reported the true expenditures incurred in the final SPMR. Given the unreliability of the financial records, OIOS could not place reliance on the figures reported, and recommended that a revised final SPMR be submitted reflecting the actual expenditures. The internal controls were found to be deficient as there was no segregation of duties.

Supply Management

- Efforts were required to improve the procurement filing system. In some cases, documents evidencing that competitive bidding had been applied could not be found.
- AssetTrak was not operational and the asset data was outdated. OIOS recommended that a complete physical inventory be conducted with assets properly bar-coded and registered on AssetTrak.

Security and Safety

- UNHCR was rated as MOSS compliant, and staff members had successfully completed the mandatory Security Training.

Administration

- In the areas of administration and finance, OCM generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, the requirements for the segregation of duties were not always adhered to, inactive participants needed to be removed from the MIP system, and the backlog of outstanding advances needed to be addressed.

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I. INTRODUCTION

1. From 4 to 8 May 2004, OIOS conducted an audit of UNHCR's operations in Malawi. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations. OIOS reviewed the activities of the Office of the Chief of Mission in Lilongwe and of three of its implementing partners.
2. OIOS' previous audit of UNHCR in Malawi was conducted in September 1999. The review focused on 1997 and 1998 project and administrative expenditures totalling US\$ 2 million. The main issues pertained to internal control weaknesses in the activities of the then Branch Office.
3. During 2003, Malawi experienced a sharp increase in the number of asylum seekers from the Great Lakes region, which necessitated the opening of a refugee camp in Luwani in addition to the existing Dzaleka camp. UNHCR provided basic assistance in the Sectors of water, sanitation, health, education and community services to the refugees in both camps, estimated at some 16,000 refugees. In 2004, UNHCR is engaging more in self-reliance activities.
4. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 8 May 2004. Exit Conference Notes outlining the audit findings were shared with the Office of the Chief of Mission in May 2004. The replies, which were received in May 2004, are reflected in the Audit Report. *The Office of the Chief of Mission has accepted most of the audit recommendations made and is in the process of implementing them.*

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations;
 - Safeguarding of assets; and,
 - Compliance with regulations and rules, Letters of Instruction and Sub-Project Agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2002 and 2003 programme activities under projects 02 and 03/AB/MLW/CM/201 with expenditure of US\$ 1.4 million. Our review concentrated on the activities implemented by the Malawi Red Cross Society (MRCS) - expenditure of US\$ 340,000, the Jesuit Refugee Service (JRS) - expenditure of US\$ 206,000, and the Department of Disaster Preparedness, Relief and Rehabilitation (DDPR) - expenditure of US\$ 267,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 600,000.

7. The audit reviewed the administration of the Office of the Chief of Mission in Lilongwe with administrative budgets totalling US\$ 294,000 for the years 2002 and 2003, and assets (as recorded on Headquarters AssetTrak) with an acquisition value of US\$ 663,000 and a current value of US\$ 13,000. The number of staff working for the UNHCR Operation in Malawi was 11. This included staff on regular posts, staff on temporary assistance, and United Nations Volunteers.

8. The audit activities included a review and assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Implementing Partners

9. For the three partners reviewed, reasonable assurance could only be taken that UNHCR funds provided to DDPR were properly accounted for and disbursed in accordance with the Sub-Project Agreements.

10. Audit certificates for 2002 were received from all partners, with the exception of MRCS. For JRS, their international global audit certificate, covering UNHCR projects, was available and an unqualified opinion was expressed. A government audit certificate was also available for DDPR, however a qualified opinion was expressed due to budgetary overruns and ineligible expenditure charged to the sub-project. *OCM explained that they had followed-up with MRCS on the submission of the audit certificate, but it had not yet been received.*

Recommendation:

- The UNHCR Office of the Chief of Mission should engage an audit firm directly to ensure audit certificates are obtained for sub-projects 02/AB/MLW/CM/201(b) and 03/AB/MLW/CM/201(b) implemented by the Malawi Red Cross Society (Rec.01).

(a) Malawi Red Cross Society

11. MRCS had not implemented an accounting system for UNHCR projects and all that was available was a list of payments. There was no analysis or details of the expenditure incurred against the budgetary provision, and from the documentation available, it was not clear on what basis the SPMRs were prepared and therefore, they could not be relied upon. Also, from the payment vouchers presented to support the expenditures it was not always evident that it was UNHCR expenditure. Given the fact that MRCS had over 15 other donors, OIOS could not exclude that some of the payment vouchers may have related to other donors.

12. Due to a lack of a proper budgetary monitoring system, there were numerous budgetary overruns, ranging from 40 per cent to over 200 per cent. Internal controls were found to be deficient, with cheques issued without due regard of the available bank balances. This resulted in several of the cheques bouncing, and subsequent bank charges.

13. OCM explained that they had frequently drawn to the attention of MRCS the lack of an appropriate accounting system, which caused a haphazard way of posting expenditures. A workshop on Programme Management was organized to address implementing partner's lack of adherence to accounting and reporting standards. OCM stated that they would again impress upon MRCS to design a proper accounting system.

14. OIOS found that MRCS had 'loaned' UNHCR funds for use in other donor-financed projects. However, they did not have an accounting mechanism to track the loans or their subsequent reimbursement. Moreover, some of the loans had not been recorded as such, but instead charged as expenditure in the final SPMR. Due to the total lack of a reliable accounting system to track such transactions, OIOS could not exclude that some of the loans had not been properly accounted for. OCM explained that they had more than once queried MRCS about expenditures that did not relate to UNHCR activities, and had informed them to discontinue such a practice.

15. Further, under the budget line for income-generating activities, MRCS loaned a total of US\$ 21,000 to the refugees. No loan recovery system was established, and from the records maintained by MRCS, there was not evidence that the amounts had been recovered. According to MRCS, the reimbursement rate of the loans was very low (less than one per cent), as most refugees assumed that the loans were actually grants. OCM explained that due to the lack a loan recovery system, the income-generating sector was taken away from MRCS, and given to a new partner already successfully administering a similar programme in Mozambique.

Recommendation:

- The UNHCR Office of the Chief of Mission, Lilongwe should, prior to entering into any new Sub-Project Agreement with the Malawi Red Cross Society MRCS, assess whether MRCS has implemented an acceptable accounting system, which meets UNHCR's financial reporting and budget monitoring requirements (Rec.02).

(b) Jesuit Refugee Service

16. OIOS found that JRS had not correctly reported the expenditures in the final SPMR, and we found that each budget line item had either been overstated or understated. Thus, the final SPMRs could not be reconciled to JRS' summary records. According to JRS, the discrepancies resulted from their calculations of the summary expenditure, which were made manually rather than using the accounting software. JRS informed OIOS that their international accounting system could not produce summary accounts according to UNHCR budget coding structure. Given the unreliability of the financial records, OIOS recommended that a revised final SPMR be submitted for sub-project 03/AB/MLW/CM/201 (e) correctly reflecting the actual expenditure. *Action is being taken to obtain this information, and a revised SPMR will be submitted.*

17. OIOS assessed JRS' internal controls as deficient, with the same individual involved in the entire expenditure cycle. The Director assumed most of the financial management functions, with certifying, authorizing and approving responsibilities. He also assumed many

of the accounting functions of accountant, was the petty cash custodian and was the sole bank signatory. *OCM stated that JRS has hired an Assistant Accountant, and that the JRS' Director would be asked to be involved in financial matters only in an advisory/supervisory role.*

Recommendation:

- The UNHCR Office of the Chief of Mission, Lilongwe should obtain from Jesuit Refugee Services a revised final SPMR for sub-project 03/AB/MLW/CM/201 (e), which reflects the actual expenditure incurred (Rec.03).

B. Supply Management

(a) Procurement

18. The UNHCR procurement procedures were generally complied with, albeit the filing system required some improvement. OIOS found various instances of procurement (totalling some US\$ 90,000) for which there was no evidence that proper competitive bidding procedures had been applied. *OCM has now retrieved and submitted the missing documentation.*

19. In 2003, OCM spent over US\$ 40,000 on travel of which some US\$ 25,000 was paid to the current travel agent. This company's services had been used for several years. There was no evidence that the agent was selected competitively bidding, despite the availability of several other travel agents. In one instance, OIOS noted that a return air ticket to a European city was purchased at some US\$ 5,000 while other travel agents would charge less than half of that amount. *OCM explained that the travel agent was also used by most of the UN agencies, but they indicated that the market would be revisited to draw the most economical fares.*

(b) Asset management

20. OIOS found that the AssetTrak system was not operational, and that the data available at UNHCR Headquarters was considerably out of date. In addition, no physical inventory had been carried out for a number of years, and most of the assets were not bar-coded, including those in the custody of implementing partners. According to OCM, the AssetTrak software was removed from a computer that was transferred to an implementing partner and was never re-installed. *OCM indicated that the updating of the AssetTrak is scheduled to commence during the first week of June 2004.*

Recommendation:

- The UNHCR Office of the Chief of Mission, Lilongwe should conduct a comprehensive review of asset management. All assets (including those with implementing partners) should be physically verified, bar-coded and registered on AssetTrak. Assistance should be requested from the Asset Management Unit, if deemed necessary (Rec.04).

C. Security and Safety

21. UNHCR was rated as MOSS compliant. All UNHCR staff members had successfully completed the mandatory Security Training, and received the Field Security Handbooks.

D. Administration

22. In the areas of administration and finance, OCM complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review, albeit improvement was required in some areas.

23. The UNHCR Delegation of Financial Signing Authority, as required under IOM 67/2000 & FOM 69/2000, dated 9 October 2000, had not been implemented. Also, the rules over the use of the budget for hospitality were not always adhered to. OIOS recommended that proper administrative and financial procedures be implemented to strengthen internal controls. *OCM explained that the delegation of signing authority charts has now been established, and that financial rules and regulations would be better observed in future.*

24. There was a backlog of advances (mostly travel advances) totalling some US\$ 10,000. Most of these advances had been outstanding since 2000 with no valid justification for this. Positive steps needed to be taken to ensure these amounts are cleared. *OCM explained that some staff members failed to lodge their claims after the completion of travel. The situation was exacerbated by the lack of staff, but the clearing of the outstanding receivables is currently underway.*

25. The names of several former staff members and their dependents, no longer members, were still included in the MIP system and needed to be withdrawn. *OCM explained that the non-removal of inactive participants constitutes part of the backlog that has accumulated over time in the Admin/Finance Unit. The exercise of editing the system and the enrolment of new staff members will soon commence.*

V. ACKNOWLEDGEMENT

26. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of UNHCR and implementing partners in Malawi.

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