

**CONFIDENTIAL REPORT TO  
NORWEGIAN NURSES ORGANISATION  
(NNO)**

**REDACTED VERSION**

**Review of  
National Organisation of Nurses  
and Midwives of Malawi (NONM)**

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## EXECUTIVE SUMMARY

The National Organisation of Nurses and Midwives of Malawi (NONM) is an organisation which is receiving funds from the Norwegian Nurses Organisation (NNO) in the period 2012 to 2015.

NNO has asked BDO to perform a review of NONM. The mandate for the review comprises the following activities:

1. Review the internal control at NONM;
2. Perform a review of relevant accounting record to verify its content and related financial reporting for the last three years (years ended 2013, 2014 and 2015); and
3. Investigate suspicions of financial fraud, misconduct and misappropriation of assets relating to NNO-funded projects.

The review team performed field work at NONM's headquarters in Lilongwe, Malawi, over the period 5. to 8. April 2016. The accountant and other staff members at NONM with whom we met, were able to answer most of the questions that arose during the course of our sample testing. They were also able to provide satisfactory documentation in support of the majority of their statements. We found no evidence of financial fraud, misconduct or misappropriation of assets. Nevertheless, BDO's review revealed weaknesses in NONM's internal control, instances of non-compliance with contractual conditions between NONM and NNO, breaches of local government regulations, and breaches of the internal financial procedures established by NONM.

NONM represents almost 90% of the nurses and midwives in Malawi. BDOs review revealed that only 2,120 NONM members out of a total of 11,695 registered, paid the annual membership fee in 2015. The implementation of the 'check-off system' for membership fees was not completed as of April 2016. According to the main contract between NNO and NONM, the check-off system for membership fees should have been in place no later than halfway through the contract period (contract period 2012 to 2017). BDO is aware that NONM, in a meeting 2<sup>nd</sup> February 2016 announced that the Ministry of Health with the support of the Secretary for Health, permitted NONM to start implementing the Check Off System.

NONM did not maintain a general ledger, income statement or balance sheet for the accounting years in scope of BDO's review (years ended 2013, 2014 and 2015). NONM provided us with access to, and a copy of the 'cash book' for the NNO project for the period 2013 to 2016. The 'cash book' is an Excel document. According to the accountant, it specifies all the transactions for the NNO funded project. Owing to the lack of proper bookkeeping by NONM, BDO was not able to conduct any detailed review of the organisation's books and records. NONM did not provide us with access to the accounting system ('QuickBooks'). The accountant informed us that the QuickBooks was not complete for any of the years in scope of the review, and that the 'cash book' was the only accounting system in use.

We identified several areas of non-compliance with the Financial Procedure Manual, which according to the Executive Director of NONM, has been valid since the year-end 2014. Our review of the procurement procedure revealed a lack of archived documentation of the procurement processes related to the selected NNO project. For example, a competitive tender process was not performed prior to the outsourcing of the management of the restaurant located in the NONM building. This management of the restaurant is currently outsourced to the Project Manager for the NNO project in NONM. In addition, NONM's Executive Director and its accountant both confirmed that there was no competitive bidding for the construction of the extension of the NONM building that is rented out, or for the construction of the extension to NONM's building that was ongoing during our visit (the wellness centre). Furthermore, we found no evidence of competitive bidding for the well drilling on NONM's property.

We identified lack of oversight of financial procedures and breaches of local regulations. For example, there were no written contracts between NONM and the companies renting offices in the NONM building. Most payments were made and received in cash. Lack of proper reconciliation of bank accounts and lack of books and records made it impossible to verify the figures in the cashbook or the overall income and expenditure.

Our review also identified a lack of oversight, governance and proper internal control over the microfinance fund for staff and members of NONM (SACCO fund). Staff and members are allowed to save money in the fund and to receive loans equal to twice the amount saved. Lack of registration and documentation of savings and loans, made it impossible for the review team to verify any receivables or loans for the SACCO fund. We were told that there was no written agreement with any depositor or borrower. There were insufficient funds to cover claims from depositors based on the bank statement for the only bank account for SACCO funds. The SACCO fund is not funded by NNO and there is no reason to suspect that any NNO funds is used for this purpose.

The review team identified non-compliance with local law and regulations (late remittance of Pay As You Earn (PAYE), VAT registration and remittance of Training levy (mandatory selfassessment)). This exposes NONM to the risk of substantial financial obligations resulting from interest and penalties from local authorities. The total risk of financial loss owing to non-compliance with appropriate local regulations and/or legal framework is estimated by BDO to be approximately MWK 11.8 million. NONM is not able to fulfil these financial obligations based on the current financial situation.

**THIS REPORT IS THE PROPERTY OF NNO AND SHOULD NOT BE DISTRIBUTED TO THIRD PARTIES WITHOUT THE WRITTEN APPROVAL OF NNO.**



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# 1. INTRODUCTION

## 1.1. Background

The Norwegian Nurses Organisation (NNO) has a framework agreement with NORAD for the period from 2012 to 2015. The agreement with NORAD provides funding of four organisations in developing countries in Africa through NNO.

The National Organisation of Nurses and Midwives of Malawi (NONM) is one of the organisations receiving funds through NNO. NONM represents nurses' and midwives' professions as the largest union for nurses and midwives in Malawi. The main contract between NONM and NNO is dated 27 February 2012. NNO announced in writing 16<sup>th</sup> February 2016 that it was terminating its contract with NONM. The intention for NNO was to enter into a new contract with NONM for the period 2016 - 2018 to coordinate the contract period with a new agreement with NORAD for the same timeframe.

NONM has established overall goal for the period 2012 to 2017 to become "a professional, competent, strong, bold and sustainable national nurses organisation, serving the professionals and socio-economic interests of nurses/midwives in Malawi, and through them to provide quality health care to the population of Malawi".

During the period from 2012 to 2015, NONM administered several projects, in addition to the NNO funded project that was the subject of BDO's review:

- National Aids Commission (NAC) funded project
- Cordaid funded project on ICT based continuing professional development (CPD) for nurses and midwives
- Cordaid funded project on strengthening of NONM
- Cordaid funded project on HRH coalition - emerging issues
- Health Care Workers Social Action Fund Project
- Anamwino Investment Revolving Project funded through shares
- Sustainability Project through building project

NONM also receives funding from Norwegian Church Aid in the project "Training a Professionally motivated nurse".

NNO engaged BDO to conduct this review before NNO's framework agreement with NONM was due to be renewed for the three-year period (from 2016 to 2018). NNO requested the review in order to assist with its decision concerning the continued financial support of NONM, before NNO entered into a new framework agreement for the period 2016 - 2018.

## 1.2. Objective

The objective for the review has been to perform an audit of the NONM's internal control, as set out in the agreement between NNO and BDO dated 18 March 2016. As a part of the review, BDO has been asked to conduct a review of possible fraud, misconduct or misappropriation of funds. The review team (see below) met with the local auditor in Malawi between 5. and 8. April 2016, and made assessment of the audit of NONM for the period 2013 to 2015.

In this report, BDO has presented the findings from the review of NONM's internal control. The objective of this review has not been to assess NONM's goals, and the report should be viewed in that context. As part of the review we have employed methods to detect possible financial fraud, misconduct or misappropriation of assets.

## 1.3. Structure of the report

In chapter four, we have presented the approach and methodology used for the review. Our observations are described in each of the audit areas. Observations that represent significant weaknesses in the internal control or deviations from agreements, regulations or implemented procedures, are followed up with recommendations

of actions for improvement. The observations are based primarily upon the information reviewed during the field work at NONM's headquarters (see below). The conclusions of our review are presented in chapter seven.

#### 1.4. Sources of information

The review team has based its observations on the review of documentation, sample testing and interviews. The review team performed field work at NONM's headquarters in Lilongwe, Malawi, over the period 5. to 8. April 2016. In addition, the team received relevant information from NNO both prior to and following the performance of field work in Lilongwe. The review team did not visit any other NONM offices in Malawi.

The most significant observations were made during our visit to NONM's headquarters in Lilongwe, where NONM's management and accounting is performed. During the course of the audit, the review team met with most of the staff members in NONM, who provided us with the relevant and necessary documentation and information during the field work.

The following NONM employees were interviewed by the review team:

Name	Position	Date appointed	Project
[REDACTED]			

We also interviewed [REDACTED]

In addition, we had several meetings with both NONM's Executive Director (ED) and its accountant during our field work.

Neither NONM's president nor the project manager for the NNO project were available during our visit. We were informed by the ED that the president was not available to meet with us. We were also informed that the project manager was travelling to Uganda for the period 3. to 9. April.

Following the review team's visit to NONM's headquarters, we met with the NNO staff responsible for the NNO funded program with NONM. [REDACTED] special advisor responsible for funding of NONM in the period 2005 until March 2015) and [REDACTED] (NNO special advisor responsible for funding of NONM from March 2015) gave us important insight into their understanding of the internal control in place in NONM. Most of the information referred to in this report as information received by NNO, is actually information received from Michael Paul Vitols as the person responsible for the program with NONM in that said period.

The findings and conclusions presented in this report are based primarily upon the information reviewed during the field work at NONM's headquarters, as well as the information and documentation received from NNO.

#### 1.5. Table of acronyms and abbreviations

The following acronyms and abbreviations used in this report are:

Executive Director	ED
National Executive Committee (Board of Directors in NONM)	NEC
National Organisation of Nurses and Midwives of Malawi	NONM
Norges Sykepleierforbund	NNO
Health Care Social Action Fund (microfinance fund)	SACCO / SACCO fund



## 2. MANDATE AND SCOPE

In accordance with the agreement between BDO and NNO, the mandate for the review has been to:

- 1) Review NONM's internal control
- 2) Perform a review and verification of the last three years of NONM's books and records (years ended 2013, 2014 and 2015)
- 3) Investigate suspicions of financial fraud, misconduct and misappropriation of assets for the NNO funded project

### **Key areas of verification corresponding to the objective 1 - Internal Control:**

- The effectiveness of internal control systems, compliance mechanisms, reporting mechanisms in suspected case of fraud or errors;
- Financial procedure manual, NONM policies documents, financial management, internal control and the compliance system;
- Procedures for procurement of goods and services;
- The adherence to contractual agreements, especially verification of income and expenditure primary in NNO funded project.

### **Key areas of verification corresponding to the objective of 2 - Books and Records:**

- Review of all relevant financial records, including bank statements and documentation provided to the auditor;
- Review of the transactions and balances of all bank accounts related to NNO funded projects;
- Sample testing of costs funded by NNO including total costs for cars owned by NONM;
- Sample testing of payment of membership fee, petty cash records, vouchers, cash and check payments;
- Review of recording of fixed assets/inventory

### **Key areas of verification corresponding to objective 3 - Fraud, Misconduct or Misappropriation:**

- Detailed review and verification of payments to employees, including employment contracts, exchange rates USD/local currency and deductions from the gross salary;
- Review of the outsourcing of the management of restaurant in the NONM building;
- Review of the Health Care Workers Social Action Fund (SACCO fund), including savings and loans;
- Review of reporting of thefts and/or any misuse of funds.

### 3. BDO APPROACH AND METHODOLOGY

#### 3.1. The review team

Members of BDO's review team consisted of the following individuals:

Name	Role	BDO member firm
Erling Grimstad	Partner	BDO Norway
Marianne Farholm	Audit Manager, State Authorized Public Accountant	BDO Norway
Hanne Hodnungseth	Senior Associate	BDO Norway
Kudakwashe Chima	Audit Manager, Chartered accountant	BDO Malawi

#### 3.2. The audit approach

For the review of NONM, the review team adopted the following approach, incorporating elements from ISA 240, the COSO framework (with elaborations from ISA 315, Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment), as well as guidance from the Association of Certified Fraud Examiners:

Audit Planning	Diagnostic Review	Control Evaluation	Reporting assurance and improvements
<ol style="list-style-type: none"> <li>1. Develop a broad understanding of the auditable entity (business area, function, process and legislative considerations)</li> <li>2. Develop assignment approach (scope of work, method of testing, sampling), using assurance framework and other relevant information</li> <li>3. Issue plan requesting feedback</li> </ol>	<ol style="list-style-type: none"> <li>1. Develop a detailed understanding of the auditable entity as defined in the scope (including the macro environment)</li> <li>2. Identify the risks and controls in the auditable entity</li> <li>3. Assess the significance of the risks</li> <li>4. Design testing strategy, giving due consideration to materiality, statistically relevant sampling, use of Analytical procedures etc.</li> </ol>	<ol style="list-style-type: none"> <li>1. Evaluate controls by walkthrough and detailed testing using relevant and appropriate methods</li> <li>2. Assess the outcome of the testing and identify any control gaps, weaknesses or redundancy</li> <li>3. Make recommendations for improvements in control</li> <li>4. Surprise check for cash and physical assets/inventory will be conducted</li> </ol>	<ol style="list-style-type: none"> <li>1. Issue draft report (after agreed review protocols), documenting work performed and recommendations for management comment</li> <li>2. Obtain responses to recommendations and issue final report</li> </ol>

**Note:**

1. Considering the quantum of transactions / projects in scope, sampling methods will be used for selection of projects / transactions.
2. Materiality consideration needs to be defined for sampling and determining value impact for an observation.



The review team specifically examined the following areas of NONM's operations:

Audit Area	Detailed area / activities
<b>Board and Oversight</b>	<ul style="list-style-type: none"> <li>• Review Financial Procedure Manual</li> <li>• Review NONM Policies document</li> <li>• Review minutes of meetings of the National Executive Committee (NEC)</li> </ul>
<b>General Accounting and Reporting</b>	<ul style="list-style-type: none"> <li>• Review of the general accounting and reporting process for NONM</li> <li>• Review of the accounting and reporting process for the NNO funded project</li> <li>• Review of fixed assets accounting and management</li> </ul>
<b>Health Care and Workers Social Action Fund / SACCO fund</b>	<ul style="list-style-type: none"> <li>• Review the procedures for membership, savings and loan arrangements</li> <li>• Review the bank statements for the funds</li> <li>• Review the compliance with local regulatory and/or legal framework for SACCO funds</li> </ul>
<b>Cash and Bank Operation</b>	<ul style="list-style-type: none"> <li>• Review cash and bank payment approval process</li> <li>• Review process for opening / closure of bank accounts</li> <li>• Review process of bank reconciliation and cash verification process</li> <li>• Review financial procedures</li> <li>• Review procedures of payment of Membership fees</li> <li>• Review petty cash procedures</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>• Review of process for procurement in general for NONM, including the NNO funded project</li> <li>• Review of the approval process related to indent and order processing</li> <li>• Review of process to monitor the contractual arrangement with vendors</li> <li>• Review of the process related to receipt of goods and Inventory management</li> <li>• Review of the vendor invoice processing process</li> </ul>
<b>Employment contracts and payments allocated to NNO funded projects</b>	<ul style="list-style-type: none"> <li>• Review any employment contracts for NONM</li> <li>• Review payments according to employment contracts and agreed deductions (2013-2016)</li> <li>• Review the payments to NONM staff members according to the budget provided by NNO</li> </ul>
<b>Statutory Compliance</b>	<ul style="list-style-type: none"> <li>• Review of compliance with PAYE regulations</li> <li>• Review the compliance with VAT registration</li> <li>• Review of compliance with remittance of training levy</li> <li>• Review of compliance with the remittance of pensions</li> </ul>

## 4. OBSERVATIONS AND RECOMENDATIONS

In this section, we have presented the observations from BDO's review. Observations that represent significant weaknesses in the internal control or deviations from agreements, regulations or implemented procedures are followed up with recommendations of actions for improvement. All recommendations are categorized with an indicative priority rating. The criteria we have used to derive these priority ratings for NONM, are as follows:

- **H:** High priority recommendation. We believe the recommendation significantly can improve the efficiency and effectiveness of the key internal controls. We also believe the recommendation can reduce the risk of possible fraud, misconduct or misappropriation of assets. We encourage NONM to follow up on the recommendation immediately.
- **M:** Medium priority recommendation. The recommendation can improve the efficiency and effectiveness of the internal controls and reduce the risk of fraud, misconduct or misappropriation of assets. The recommendation is not critical, but should be followed up by the organisation to improve oversight and reduce the risks as described.
- **L:** Low priority recommendation. To a certain extent, the recommendation of improvement can strengthen the internal controls in the organisation and the oversight. We believe the recommendation can reduce the risk of fraud, misconduct or misappropriation of assets. We recommend the organisation to consider the given recommendations in order to further enhance the efficiency and effectiveness of the key controls in the organisation.

The observations from the review are presented below by category in the following order:

Section	Category
5.1	Board and oversight
5.2	General Accounting and reporting
5.3	Statutory compliance
5.4	Members
5.4	SACCO fund
5.6	Cash and Bank operations
5.7	Procurement
5.8	Outsourcing of restaurant
5.9	Employment contracts and payments allocated to the NNO funded projects
5.10	Vehicles
5.11	Sustainability project
5.12	Quality control of audit



#### 4.1. Board and oversight

##### Board meetings (NEC Meetings)

The BDO team reviewed the minutes from the National Executive Committee (NEC) meetings for the period 2013 to 2015. Each NEC meeting that took place during this period has a separate reference number. The minutes from each meeting are recorded in separate files (one file for each NEC meeting) and each file contains the reports presented to the NEC during the meeting, including the report from the president and the ED.

None of the minutes from the NEC meetings we reviewed had been signed. It was stated on the minutes we reviewed that they were circulated before the next NEC meeting, and that the chairperson checked with the members whether there were any corrections or issues before they were adopted as true record of what had been discussed. The review team was not able to verify whether this process was performed as described.

##### Gaps reported to NEC

In the NEC meeting that was held on 27. September 2014, the president reported several observations. One of the gaps was the low number of members (nurse and/or midwives) registered at NONM.

The president's report for the meeting included the following statement:

*"In conclusion, the other items on income and expenditure of NONM building, assets management, project accounts, IGA initiatives and procurement were to be looked into accordingly with the finance section and the treasurer general considering that there was work in progress to develop the relevant corresponding procedures and documents."*

According to the treasurer general for NONM, this refers to the over expenditure in the NONM accounts relative to its income.

Our review of the minutes did not identify any other significant anomalies, such as non-compliance with local regulations, inadequate bookkeeping, lack of competitive bidding and failure to comply with NONM's procurement regulations.

##### Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	The BDO team reviewed the NONM National Executive Committee (NEC) meetings from 9 May 2013 (meeting no. 16) to 31 March 2016 (meeting no. 26). There are no signed minutes from the NEC meetings.	The members should sign NEC minutes.	M
2	According to the Financial Procedure Manual NEC shall appoint external auditors to examine and audit the accounts of NONM in accordance with International Standards on Auditing.	NEC should ensure proper audit of NONM's books and records.	H
3	Lack of members in NEC with required competence to ensure oversight and compliance with appropriate local regulatory and/or legal framework can represent a risk for NONM.	NONM should ensure proper education and/or guidance to all NEC members to ensure proper oversight and compliance with local laws and regulations. BDO also recommend to implement check list for NEC to ensure proper oversight as mentioned, on yearly basis.	M

## 4.2. General Accounting and reporting

### Review of books and records

The review team requested the books of records of NONM for the period 2013 to 2015. The only books of records provided by NONM were the 'cash book'. The cash book presented to BDO contained all of the transactions relating to the NNO project. The cashbook is maintained in Excel.

BDO performed a detailed review of all costs greater than or equal to MWK 2 million that were recorded in the cashbook for the years 2013 to 2015. All the transactions tested had supporting documentation.

The following are examples of transactions related to the transfer of funds between NONM accounts:

- 2015: Two transactions totalling MWK 5 million (each transaction amounting to MWK 2.5 million) were recorded in the cash book. Both transactions are entitled "[REDACTED]". Among the underlying documentation, there is a loan agreement (SACCO loan) of MWK 5 million to [REDACTED]. The transactions are recorded in the cash book as "recoverables" (cheque number 003793 and 003811, recorded 11.2.2015).
- 2014: Transaction of MWK 3 million entitled "NONM-Cordaid (gender empowerment)". The transaction is recorded in the cash book as "recoverables". The underlying documentation shows that this transaction is a refund of funds to the Cordaid project ("NANM CORDAID"-account, [REDACTED]) (cheque number 003373, recorded 8.5.2014).

The accountant explained to BDO that the original payment to the Malawi College of Health Sciences Central Office was made from the "NANM CORDAID"-account ([REDACTED]), and this transaction was a refund.

- 2013: Transaction of MWK 7 million entitled "NONM Building" is recorded in the cash book. The transaction is allocated to organisational development costs (the "sustainability project"). The underlying documentation shows a payment to the NONM account "NONM Building", [REDACTED]. There is no other underlying documentation than the payment receipt (cheque number 002821, recorded 14.2.2013).

NONM's ED and the accountant informed the audit team of challenges caused by late payment from NNO on some occasions, resulting in use of money from the building project to pay for NNO-related costs. Once NONM has received a payment from NNO, the cost is refunded to the building project. There is a risk of error and fraud as there are incomplete accounting records to ensure traceability of relevant transactions between projects.

NONM has informed BDO that they do not have a general ledger, income statement or balance sheet for the entire organisation.

### Financial Procedure Manual

In the NEC meeting that was held on 24. March 2015, the ED informed NEC of the work in progress and draft documents of policies and procedures. In the NEC meeting that was held on 21. November 2015, the ED gave an update on Corporate Governance and Policies and Standard Procedures to Management and NEC Members. The ED informed the board that the Secretariat had organized a two-day orientation programme for the Management and NEC members on the organisation's governance, policies, and standard procedures. The information also included the following:

*"Under Financial Management standard procedures, NONM was advised to develop a clear financial strategy and its implementation strategy and a robust financial management system that has no leakages and lastly the board was advised to revisit on the composition of the Fraud Management Unit."*



NEC adopted the Financial Procedure Manual according to the accountant and ED. The Financial Procedure Manual was implemented for the year 2014 and forward.

According to information received by the review team from the National Treasurer, who is also a member of NEC and attending the NEC meeting 21 November 2015, he was not aware of the existence of the Financial Procedure Manual. The Treasurer does not remember whether the Financial Procedure Manual has been discussed or approved by the Board.

#### **Information provided by NNO**

NNO has informed BDO that NONM uses the accounting system QuickBooks Pro, and that the system has been in use since 2013. NONM has not provided NNO with its complete financial statements. NNO has only received from NONM financial statements for the NNO project.

NNO and NONM have two partner meetings every year, during which NONM presents financial statements. The reports NONM presents are all Excel-based. In addition, NONM submits quarterly reports, both financial and narrative, to NNO.

NNO has developed a standardized Financial Management Manual, which has been introduced to all the four organisations funded by NNO. Each of the organisations was given the responsibility for customising and implementing the manual.

NNO is aware that NONM occasionally transfers funds between bank accounts and projects. Late transfer of funding from NNO to NONM may occur as a result of late submission of quarterly reports by NONM.

#### **Information provided by NONM during the quality assurance process**

##### ***Quick book accounting system***

*«NONM has previously reported to NNO through the International Special Advisor Mr. Michael Vitols that steps were being taken to implement the Quick Books accounting system. This is correct but the system has not been implemented fully partly due to extreme workload for the finance department and the high costs that were being incurred from the charges by the specialist who was working with NONM.*

*The challenges faced with Quick books were also shared at the financial management workshops held with the other NNO funded countries of Uganda, Zambia and Rwanda.»*

## Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<p><b>Incomplete accounting records</b> NONM has been obliged to maintain books and records according to local laws since it began receiving income (November 2014).</p> <p>NONM did not maintain a general ledger, or prepare annual income statement or balance sheet for the years ended 2013 to 2015. NONM has maintained a 'cash book' for the NNO project for the period 2013 to 2016. The 'cash book' is maintained in Excel.</p> <p>There are no accounting records maintained by NONM, with the exception of the cash book. This does not comply with 54 (1) of the Taxation Act (Chapter 41:01). It is required that "Every taxpayer should keep sufficient records of his income and expenditure to enable his assessable income and allowable deductions to be readily ascertained and shall retain such records for at least seven years after the completion of the transaction, acts or operation to which they relate.</p> <p>There is a risk of lack of identification of liabilities, assets and risk of undetected fraud or errors.</p>	<p>Management should maintain sufficient accounting records. In our opinion, these should include a record of transactions and events which enable the organisation to prepare balance sheets, income statements, and other financial statements, as are necessary to support the information as per section 87 (1) of the Taxation Act.</p>	H
2	<p><b>Accounting system</b> The accounting is manual and is maintained in Excel. NONM has QuickBooks and SAGE Pastel accounting software available that is not being used. No proper evaluation of requirements was performed when the systems were purchased.</p> <p>Uneconomic use of funds in purchasing software that is not fully utilised.</p>	<p>NONM should implement a proper accounting system to ensure compliance with regulations and to safeguard audit trail of its records.</p>	M
3	<p><b>Inadequate accounting qualification</b> Based on the findings of non-compliance with local laws and regulations, BDO is not sure if the accounting staff do possess the requisite accounting qualifications to ensure they are able to do their tasks with the quality required and implement sound internal controls. The accountant holds a Diploma in Business Studies from University of Malawi and the Assistant accountant holds Certificate in Financial Accounting from The Institute of Administration and Commerce.</p>	<p>The ED should ensure that the organisation's staff have adequate accounting qualifications.</p>	M



**Implementation of an accounting system**

BDO recommends that NONM implements an accounting system adequate to NONM's organisational structure and operations. The accounting system should facilitate the combination of bookkeeping to enable the preparation of financial statements for the organisation as a whole, and financial statements for each individual project (e.g. by recording transaction with a project code, thereby the cost / income transactions automatically allocates to a project).

**Revision of the Financial Procedure Manual**

BDO recommends that NONM conducts a review of the Financial Procedure Manual. The manual should be customized to NONM in regards to factors such as the organisational structure and size, key risk areas identified, the different sources of income. A customized manual will help ensure compliance and will add value.

The revised Financial Procedure Manual should be approved by the NEC.

**Segregation of duties**

BDO recommends that NONM revises the current segregation of duties, and reviews whether there are operations / activities where further division of responsibility could be considered beneficial.

Segregation of duties should especially be evaluated in the areas of 1) Registration and payment of incoming invoices and 2) Payroll registration and pay-outs.

### 4.3. Statutory compliance

The review team identified non-compliance with the Malawian Taxation Act and VAT Act. This represents a risk of financial loss resulting from penalties and interests on unpaid taxes. We did not identify any minutes from NEC meetings reporting non-compliance with appropriate local regulatory and/or legal framework.

Pay As You Earn (PAYE) is being remitted late in some instances, resulting in the risk of penalties of MWK 1,894,626.

NONM has not registered for VAT, as is required. NONM has an obligation to register for VAT with the Malawian authorities as it is subject to VAT based on its income from the rental of the building and the restaurant. According to the VAT legislation, NONM should pay VAT for income above MWK 10 million for a duration of one year. There is a risk of penalties of MWK 5,978,425 for non-compliance based on a total rental income in 2015 of MWK 13,487,150.

NONM is not remitting Training Levy as required by the Tvet (Technical, Entrepreneurial, Vocational, Education and Training) Act, which requires employers in the private and public sector to support the Apprenticeship Training Scheme by contributing 1% of their basic payroll. There is a risk of penalties of MWK 1,187,801.

Furthermore, NONM faces a potential penalty of MWK 2,770,841 for non-compliance with the mandatory minimum contribution stipulated in the Pension Act.

There is a risk of total financial losses of approximately MWK 11,8 million for non-compliance with the local regulations and/or legal framework, as described above.

#### Information given by NNO

The main contract between NONM and NNO, states the following regarding taxes and duties: *"Taxes/revenues relating to the project and claimed by government will be paid on time."*

#### Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<p><b>Late remittance of Pay As You Earn (PAYE)</b> Pay As You Earn (PAYE) is being remitted late in some instances. This results in under deduction of PAYE, which attracts a penalty under regulation 10 (1 and 2) of the Taxation Act (Chapter 41:01). In Appendix 2 we have estimated potential PAYE penalties and interest.</p> <p>Non-compliance with Taxation Act and VAT Act. Financial loss due to penalties and interest on unpaid taxes.</p>	Management should remit PAYE in a timely manner.	H



#	Observation and risk identified	Recommendation	Priority
2	<p><b>Registration for VAT</b> Section 11 (1) of the VAT Act requires that a person should register as a taxable person if he or she is a person who makes taxable goods or services and, whose business turnover is or exceeds MWK 10 million per annum. Income from rental for a commercial building is subject to VAT at 16.5%. According to our review and received information of rental income in 2015, NONM is subject to VAT. We have estimated potential VAT penalties and interest on Appendix 3.</p> <p>Liability to a penalty of MWK 500,000 and imprisonment for five years upon conviction for deliberate or reckless failure to register.</p> <p>Financial loss due to unclaimed VAT input incurred on the building. Financial loss due to penalties and interests on unpaid VAT.</p>	<p>Management should register and charge VAT on rental income received from the commercial building.</p> <p>Management should claim VAT input on VAT-applicable expenses incurred in running the business.</p>	H
3	<p><b>Remittance of Training levy</b> NONM is not remitting Training Levy as required by Section 20 (1) and (2) of the Tevet Act No.6 of 1999. The Act requires all employers in the private and public sector to support the Apprenticeship Training Scheme by contributing 1% of their basic payroll as a mandatory self-assessment. We have estimated potential Training Levy penalties and interest in Appendix 4.</p> <p>20% penalties of unpaid levy and other civil processes at the civil courts.</p>	<p>Management should ensure compliance with the Tevet Act.</p>	H
4	<p><b>Remittance of Pension</b> Pension contributions remitted to Old Mutual do not comply with the mandatory minimum contribution stipulated in the Pension Act No. 6 of 2011. The Act requires Employers to contribute 10% and the employee 5% (but is at liberty to contribute more) of the pensionable emoluments. Based on information received from NONM we have estimated potential Pension penalties and interest in Appendix 5.</p> <p>Liability to pay interest of the bank rate plus 10% per annum on the outstanding contribution.</p>	<p>Management should ensure the pension contributions to Old Mutual comply with the Pension Act.</p>	H

#### 4.4. Members

NONM has a total of 11,695 members registered in its database as of 6 April 2016. According to NONM the number of members recorded (11,695) represents both “paid fee” and “not paid fee” members.

BDO has been informed that members are only deactivated in the database if NONM is informed that a member has passed away.

The yearly number of members with paid membership fee (for the years of focus) are as follows:

Year	Numb. of members with registered membership fee payment	Total amount of membership fee paid (MWK)
2015	2,120	2,470,500
2014	2,335	2,688,750
2013	3,413	3,767,552

In 2016 (as of 30 March 2016) 110 new members (“paid fee”) were registered in NONM’s membership database.

NONM’s ED and its accountant informed BDO that the members of NONM are employed by the government / public sector (estimated to employ 63% of the members), the private sector and the Christian Health Association of Malawi (CHAM). The latter two are estimated to employ 37% of the members in total.

#### Membership database

NONM uses Microsoft Access for registration of members and the members payment of the annual fee. The Administrative Assistant, Mirriam Mzembe, is in charge of the membership database.

The membership database is password protected. There are two different steps at which a password is required: 1) entering the membership database, and 2) entering the area of registration of new members and registration of payment of membership fees. The Administrative Assistant informed BDO that she is the only person with the passwords to the database.

The registration process of (new) members and payment of membership fee was demonstrated to BDO. The different steps of the process are outlined below:

#### *In the field:*

1. The member manually fills out a set form (NONM membership form).
2. The member pays the membership fee in cash to a NONM representative (at one of the three NONM regional offices: South, Central or North). When payment is received by the NONM representative, the member receives a pre-numbered receipt.
3. The payments are deposited by a NONM representative at the regional office.
4. When a receipt book is completed or after a period of time (exceeding one month), the receipt book and the membership forms are transported to NONM’s headquarters (Lilongwe).

#### *At the headquarters, Lilongwe:*

5. The Administrative Assistant inputs the data entered into the membership forms, as well data relating to the payment of the membership fee.
6. The Administrative Assistant prints out a membership card, which contains the name of the member, and the year for which the membership fee has been paid.

During the fieldwork, BDO performed sample tests of different membership numbers to confirm the registration data of the member, the registration data of payments of membership fee and the underlying receipt of payment. Our sample testing did not identify any deviations.



### Membership fee

The members pay an annual membership fee to NONM. The fee is based upon a set rate dependent on the degree of education / work experience of the nurse and midwives. There are three different categories of membership fee:

- First level nurses: 2,000 MWK
- Second level nurses: 1,000 MWK
- Students: 500 MWK

NONM are currently working on implementing a check-off system (see below), with new guidelines and practices for membership fee.

### Check-off system (implementation in progress)

NONM is currently working on implementing a new system for collecting membership fees. The new system is called the 'check-off system'.

The check-off system will enable NONM to deduct the membership fee directly from members' salaries. NONM has informed BDO that they have received the necessary approval from Ministry of Health to deduct a set amount from members' salaries. Through the check-off system, NONM will deduct 1% of the members salary as membership fee on a monthly basis.

NONM have informed BDO that the check-off system has been presented to NONM members in the North region, and that they have started to receive membership forms. NONM plan to present the check-off system in the South and Central regions shortly.

### Information given by NNO

The Main Contract between NONM and NNO concerning «Phase II: Organisational strengthening and sustainability project» states the following regarding procurement:

*Section: 3. Project description, Subsection: Success indicators*

*« Success indicators (expected results or outcomes) to be attained during the contract period (with qualitative and quantitative indicators):*

- 1. NONM will represent 90% of the nurses and midwives of Malawi.*
- 2. A check-off system for membership fees will be in operation no later than halfway through the contract period and at least 50% of NONM members will be paying their membership fees through this check-off system.” (contract period 2012 - 2017).»*

NNO has informed NORAD of the delay in the implementation of the check-off system.

NNO has informed BDO that NONM represents almost 90% of the nurses in Malawi. NNO has also explained to BDO that they are aware that only 1,500-2,000 NONM members pay the annual membership fee.

NNO have explained that the NONM's membership database includes all members (including those who have not paid the annual membership fee), and that the statutes of NONM states that members are to be deactivated from the membership database if they have not paid the membership fee for two years in a row.

In NNOs report to NORAD “NSF - Utvidet periodisk sluttrapport til NORAD” the following is reported concerning number of members:

*“...Analysis of public numbers retrieved from General Council of Nurses in Malawi indicates that NONM with 10.500 members represents approximately 90% of the country's nurses/midwives.” (Translated from Norwegian).»*

Information received by NNO shows that NONM have reported a projected income of 6,000,000 MWK from membership fees for the year 2015. The review of the membership database showed an income of 2,470,500 MWK from membership fees in 2015.

#### Information provided by NONM during the quality assurance process

##### *NONM Representation of its members*

«NONM reported that it represents close to 90% of the nurses and midwives in the country. By this they meant those members that have registered with the union since 2006. The percentage is calculated on the cumulative membership figure which includes all the active, inactive and suspended members which according to records by end March 2016 was at 11,695. The percentage has also been calculated out of total cumulative number of nurses and midwives in the country of 12,610 according to the regulatory council.

This means calculation of paid up members (active members) for the years was also based on the cumulative numbers therefore the figures could be misleading.»

##### *Check-off system.*

«According to the main contract, between NNO and NONM, the check-off system for membership fees should have been in place no later than halfway through the contract period 2012 to 2017 but has been permitted in March 2016. It should be noted that the implementation of the check-off system was beyond NONM's control since permission has to come from government (Ministry of Health). NONM has been engaging ministry for years to no avail up until March 2016 with the new Secretary for Health who has experience from the teachers Check-off system was able to support the initiative. Note should also be taken that government bureaucracy delayed the whole process.»

#### Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<p>Lack of dual approval related to registration of new members and payment of annual membership fees.</p> <p>Risks related to the registration of ghost members or holding back registration of payments.</p> <p>The new check-off system will ease the process for registration of members.</p>	<p>Implement dual approval of the registration of new members. E.g., when a new member is registered in the system, another person has to review and reconcile the application data and the data registered in the system.</p>	M
2	<p>Lack of internal terms and definition of "a member". The database currently includes members who pay membership fee regularly, members that have not paid membership fee in years, and members that might have passed away.</p> <p>This represents a risk of inflation of the membership database and incorrect reporting.</p>	<p>With the new 'check-off' system, NONM is establishing a new database of members. In the establishment of a new membership database NONM should ensure that only active members are included in the membership database.</p> <p>Terms and condition of the category "active members" should be clearly defined by NONM.</p>	M



#### 4.5. SACCO fund

Staff and members are allowed to save money in the micro finance fund (SACCO fund) and to receive loans equal to twice the amount saved. Lack of registration and documentation of savings and loans, made it impossible for the review team to verify any receivables or loans for the SACCO fund. We were told that there was no written agreement with any depositor or borrower. NNO is not funding the SACCO fund and there is no suspicion of NNO funds being used to finance the SACCO fund.

Status of the Health Care Social Action Fund (SACCO) was presented to the NEC on 22. November 2012. It was reported that, "The fund was doing well".

The first NEC meeting where we identified a description of the SACCO fund was the NEC meeting that was held on 21. November 2015 (The Health Care Social Action Fund (SACCO) case 224/08/2015). From the minutes it appears the members requested a detailed report including the amount borrowed by each of the members, their savings, whether all the members were continuing with monthly savings.

There is a separate bank account for the SACCO fund [REDACTED]. We received and reviewed the bank statements from this bank account to verify the amounts on the account in December and January each year for the period 2013 to 2015. The balance was less than MWK 1 million for most of the period.

The ED and the accountant explained to the audit team that members of the fund have to apply for withdrawals from the fund one month in advance. As there are not sufficient funds available to make withdrawals for all members requesting this, NONM has a "waiting list" for members who want to withdraw their savings. According to the ED and the accountant, this waiting list is not recorded separately. The accountant receives the requests and places the requests in writing in a pile in the same order as he receives them.

According to the ED and the accountant, NONM are able to pay the members who want to withdraw their savings as long as other members continue to pay their monthly rent and instalments. NONM also has the possibility to transfer money from the building project to the SACCO bank account.

There is no separation of funds (including savings and loans) or identification of individuals and their savings and/or loan in the SACCO fund.

According to the local laws and regulations in Malawi, (Financial Services Act, 2010, Financial Cooperatives Act, 2011 and the Savings and Credit Cooperatives (SACCO) directives compliance action plan guide), all SACCOs are required to comply with the minimum requirements as stipulated in the directives. This includes licensing directives, requirements for the SACCO premises, asset classification (member loans), reporting requirements, regulations for external borrowing in percentage of total assets, capital adequacy, liquidity management and requirements for corporate governance. The Reserve Bank of Malawi supervises 70% of the entire SACCO movements' assets, loans and deposits.

The review team identified lack of oversight, governance and internal control of NONM's SACCO fund.

#### Information given to NNO

NNO has not received any written reports on the SACCO fund, but have received oral orientations during their partner meetings. NNO believes that the SACCO fund has approximately 50 members, and that the SACCO fund is mainly used by the employees / members of NONM located nearby NONM's headquarter. NONM has confirmed to NNO that the funding from NNO is not used to finance the SACCO fund.

NNO have been notified that there is some frustration among SACCO fund members. The information has been provided by people who have taken up SACCO loans.

The SACCO regulations are enclosed in appendix 6.

## Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<p><b>Inadequate accounting and oversight for savings and loan</b> NONM has no accounting records for savings or loans from staff and members of NONM.</p> <p>There is one bank account for SACCO funds. There seem to be insufficient funds in the bank account to meet the obligation for withdrawals of savings to members for the period from 2013 to date. The ability to make withdrawals presupposes that borrowers pay their loans to meet the demands for refunds by members wishing to withdraw their savings.</p> <p>There is a risk of insufficient funds in the SACCO bank account to meet members' requirements for withdrawals of deposits. The lack of monitoring and internal controls may lead to errors, fraud and misappropriation of assets from the fund.</p>	<p>NONM management should ensure they have properly updated information on savings, loans, interest allocated to lenders, and instalments paid.</p> <p>Management should ensure proper reconciliation of receivables and deposits for each member in the SACCO fund.</p>	H
2	<p><b>Lack of loan agreements</b> There are no loan agreements in writing leading to lack of monitoring and control over borrowers and repayments from borrowers.</p>	Management should ensure there are loan agreements in writing identifying each individual borrowing money from the fund and specifying the amount, interests and instalments to be paid.	H
3	<p><b>Lack of compliance</b> Non - compliance with local regulatory and/or legal framework for SACCO funds represent high risk of claims and liability from members.</p>	Management should ensure proper compliance with the regulations and directives for SACCO funds.	H



#### 4.6. Cash and Bank operations

NONM's accountant informed BDO that NONM has the following bank accounts:

Account number	Account name	Bank	Status
	NANM - NAC PROJECT	NB	Active
	NANM - P and G	NB	Closed (2010)
	NANM - NONA	NB	Active
	NONM - BUILDING	NB	Active
	NANM - SOLIDARITY	NB	Active
	NANM - CORDAID	NB	Active
	NANM - SCOTLAND RCN	NB	Closed (2013)
	NANM - SCOTLAND SOLIDARITY	NB	Closed (2013)
	NONM - MUMs / LINDA MACDONALD	NB	Active
	NANM - FCDA	NB	Active
	NONM - HRH	NB	Closed (2013)
	NONM - HCWSAF	NB	Active
	NONM - PROPER	FMB	Active

#### Bank authorization

According to the accountant, there are three individuals who have bank authorization for all of NONM's bank accounts. The Treasurer General and the ED have such authorization for all bank accounts. In addition, the Project Manager for each project has bank authorization. For the NNO funded project, the Project Manager Harriet Chiomba has bank authorization for the two related bank accounts (NONM - NONA [REDACTED] and NANM - FCDA [REDACTED]).

#### Petty cash

NONM operates a petty cashbox, for which the Administrative Assistant is responsible (the box is located in her office and she is also in possession of the key).

NONM's administrative assistant explained to BDO that the following process is in place:

- Employees have to ask the Administrative Assistant for cash to purchase an item or service. The Administrative Assistant evaluates the need of the purchase. If she considers it to be valid, she gives out the requested amount and writes a receipt.
- The administrative Assistant then records the date, cheque number, the amount, a short description of purpose of the expenditure and the running balance of the petty cashbox in an Excel sheet.
- The employee, who is given the cash, has to deliver the original receipt of the expenditure to the Administrative Assistant.
- When the petty cashbox is (close to) empty, the Administrative Assistant brings the form (record of the use of petty cash) to the accountant who then has to sign off on the form.
- The accountant is also in charge of approving a new withdrawal of 80 000 MWK (or less) for the petty cashbox.

BDO has been informed by NONM that as of 2016 the petty cash limit has been set at 80,000 MWK (approximately 120 USD).

BDO reviewed the documented use off petty cash in the period 16. February to 24. November 2015. We established a limit of 10 000 MWK in our sample testing. There are two amounts that exceed 10 000 MWK. These were withdrawals for a) "1 self-ink stamp" with a recorded amount of 29 000 MWK and b) "1 kenmprin and 1 Kombati" with a recorded amount of 10,700 MWK.

Procedures for petty cash are described in section “5.8 Procedure for Petty Cash” in NONM’s Financial Procedure Manual dated January 2014.

#### Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<b>Bank operations</b> NONM had 13 bank accounts, nine of which were still open on the date of the BDO audit. For the NNO project, there are two bank accounts. One of those is the USD account. There is no reconciliations process in place for the bank accounts.	NONM should ensure proper reconciliations for all bank accounts. The reconciliation should be performed to ensure that all receipts have been recorded, and that the cash has been deposited.	H
2	Cash payments and cash contributions received from members are processed manually. There is a risk of error and fraud as it is difficult to verify that cash contributions received or cash payments have been recorded, accounted for and deposited into the allocated NONM account on timely basis/at all.	NONM should develop a system to ensure monitoring, as well as implement control mechanisms to ensure proper handling of cash and cheques.	H
3	Cash payments made on a daily basis are recorded in the cashbook (Excel sheet). This is maintained manually. Such cash payments are not entered into any proper accounting system.  There is a risk of error and fraud caused by lack of proper accounting system in addition to the cashbook.	Cash payments should be recorded in a proper accounting system on a regular basis.	H
4	The review team did not review the physical cash balance observed as there was no balance recorded in the manual cash book (Excel sheet)		
5	<b>Petty cash</b> NONM operates a petty cashbox. The amount limit is set at 80,000 MWK.  The Administrative Assistant is in charge of the petty cashbox, the registration of transaction and collecting the required underlying documentation.  The expenditure and running balance of the petty cash is documented in an Excel sheet.  The accountant has to sign off on the form (overview of the petty cash spent) before the petty cashbox is refilled.		



#### 4.7. Procurement

NONM's Financial Manual, dated January 2014, describes the procurement procedures in section "6.3 Procurement Procedures"

Under 'Guidelines for acquiring goods or services', the following is stated:

- A. Procurement of items whose value is less than 100,000 MWK shall be done outright.
- B. Procurement of items whose cost is over 100,000 MWK (approximately 147 USD in April 2016) and large capital items a minimum of three quotations shall be sourced and evaluated by the Procurement Committee. The Committee shall among other factor base the decision on: price, quality, durability, after sale service and technical advice of experts. The Committee shall at all times document and keep a record of deliberations (minutes), which shall accompany other relevant documents before the ED's / NEC's approval is sourced and endorsed.

NONM's accountant and the ED explained that the following chain of events should be followed for the purchase of items whose value is over 100,000 MWK:

1. An employee of NONM collects a minimum of three quotations.
2. The ED then recommends one of the quotation to the Procurement Committee.
3. The Procurement Committee evaluates the recommended quotation.

The accountant and ED informed BDO that there are no templates for the tender process, but they do have a form of procurement protocols.

#### The procurement committee

For procurement related to the NNO project, the Procurement Committee consists of the following members:

- Treasury General, [REDACTED]
- The Project Manager, [REDACTED]
- The accountant, [REDACTED]
- The Administrative Assistant, [REDACTED]

The accountant and ED informed BDO that the Procurement Committee had approximately four meetings in 2015.

#### Conflict of interest

If there is a conflict of interest in a specific procurement process, the conflicted person should step aside. The accountant and ED informed BDO that they do not remember any situations where a conflict of interest has been identified.

### Information given by NNO

NNO informed BDO that it has not reviewed any of the valuable procurements, as they expect this to be done by the auditor. NNO has not been notified of any deviations from the procurement procedure, either by NONM or the auditor.

The Main Contract between NONM and NNO concerning «Phase II: Organisational strengthening and sustainability project» states the following regarding procurement:

*Section: 5. Administration, Subsection: Financial administration*

*«No purchase of goods or services will be made, violating relevant resolutions adopted by the UN Security Council.*

*Procurement will be based on considerations of the most favourable conditions regarding price, quality, delivery and maintenance. »*

The Agreement of Cooperation between NORAD and NNO for the period 2012 to 2015 (GLO-0759) states the following regarding procurement:

*Section 9. Procurement and property (originally «Anskaffelser og eiendom»)*

*The receiving part of funding shall keep records / procurement protocols to document tenders, evaluations and decisions with importance to the procurement when the procurement exceeds 100,000 NOK (approximately 8,253,063.58 MWK as at 11 April 2016.)*

### Information provided by NONM during the quality assurance process

#### *Construction of the buildings without bidding process*

*«This issue was discussed with the previous International Special Advisor when we started developments at the plot in 2006. The proposal to bid for contractors proved to be very expensive such that the funds at that time could have only cover planning and surveying costs. So it was agreed that we could find a registered architect and engineer who were to support us with all the requirements to build the structures and they have been the same professionals that we are using until now. Purchasing of materials is done by collecting quotations and we usually purchase in small amounts because of limitations in flow of funding.»*



## Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<p><b>Procurement regulations</b> All tender protocols and tender processes documented were reviewed. The review team identified non-compliance with the Procurement regulations in the Financial Procedure Manual.</p>	NONM should ensure compliance with the Financial Procedure Manual.	H
2	<p><b>Procurement procedures on capital and recurring expenditure</b> Procurement procedures, which limit the approval of payments to suppliers above MWK 100,000 without approval by the Procurement Committee, have not been implemented.</p> <p>Contractors that are not registered with the National Construction Council of Malawi are used during construction, and no recourse on poor workmanship is claimed.</p> <p>No withholding tax is deducted on payments to suppliers with potential tax liability liabilities estimated on Appendix 3.</p> <p>There is a risk of financial losses through uneconomic procurement.</p> <p>Override of internal controls can lead to fraud and misappropriation of assets. There is also a reputational risk for non-compliance with procurement regulations.</p>	<p>The procurement committee should be involved in all procurements above MWK 100,000.</p> <p>Management should ensure they conduct proper due diligence before procuring capital items to avoid unnecessary losses.</p>	H
3	<p><b>Pre-qualified vendors</b> There is a requirement to maintain a list of pre-qualified vendors. The list is to be approved by NEC. The review team did not find any such list from NEC meetings in the period covered by the review.</p>	NONM should ensure that NEC approves vendors on the vendor list according to the Financial Procedure Manual	H

#### 4.8. Outsourcing of restaurant

Information about the 'restaurant programme' in the NONM building was provided to the Board of directors (NEC meeting) on 22 November 2012. The minutes from the NEC meeting refer to a NONM/NAC summary report estimating 150 customer per day when the restaurant was completed. It was stated that the restaurant would also provide catering services and would needed to increase its staff with four persons.

BDO received the outsourcing contract for the restaurant between NONM (as franchisor) and the private company LIBWE INVESTMENTS (franchisee) , dated 1 September 2015.

We did not receive any evidence of invoices from or payments made to by LIBWE INVESTMENT despite repeated requests by the review team. The registered sole owner of the company LIBWE INVESTMENT is HARRIET MEMORY CHIOMBA according to information from the company register. The company was registered on 7 December 2006. The registration documents for LIBWE INVESTMENTS are enclosed in appendix 1.

According to both NONM's ED and its accountant, [REDACTED] (Project Co-ordinator in NONM) is said to be the current owner and manager of the company after her late husband [REDACTED]. [REDACTED] was not available during our visit in Lilongwe, and was said to be travelling to Uganda during the period 3 to 9 April.

NONM has established a social welfare arrangement, into which staff members pay a fixed fee. A part of the amount from staff is said to be paid to the restaurant as a subsidy for lunch for staff members. Any additional cost for meals according to the staff members own choice, is paid separately by the staff members. Every month, NONM pays a total of MWK 176,000 to the restaurant for its services. The restaurant pays a franchise fee of MWK 100,000 per month to NONM according to the contractual agreement. This monthly fixed amount includes water and electricity according to NONM's ED and the accountant. NONM's costs for water and electricity are financed partly from the NNO account and partly from the building project.

According to NONM's ED and accountant there was no formal tender process resulting in the agreement with LIBWE INVESTMENT to run the restaurant. They explained to the review team the reasons why they decided to let [REDACTED] run the restaurant. The situation was discussed among members in NONM according to the ED and the accountant.

#### Information provided by NNO

NNO is aware of that there has been several changes in the restaurant's management, although it is not aware of the current management.

Furthermore, NNO is not aware of how costs related to water and electricity are divided between NONM and the restaurant. NNO understands that the restaurant provides NONM with a monthly income of approx. 100 USD.

#### Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<p>No official tender process was performed when the management of the restaurant was outsourced. Based on the lack of competitive bidding for the contract with NONM, we are not able to review whether the set fee for the outsourcing is according to the market price.</p> <p>There is a potential conflict of interest as the manager of the restaurant also is the Project manager for the NNO project as an employee at NONM.</p>	<p>The outsourcing agreement should be reviewed by the management to ensure that the set fee is according to market price.</p> <p>There should be proper records and procedures to ensure that any sponsored payments from NONM or NONM staff members are identified and recorded.</p> <p>The management should ensure that the Project manager for the NNO project is able to handle her duties for NNO in addition to the management of the Restaurant.</p>	M



#### 4.9. Employment contracts and payments allocated to the NNO funded projects

NONM's board of directors has been informed of allegations made by staff members, according to the recorded minutes. The president informed the NEC during the meeting on 21 April 2014 that some staff had claimed that they were underpaid, claiming that they were entitled to receive the equivalent of the USD amount that had been budgeted for salaries, as funded by NNO. According to the minutes reviewed, the NEC agreed to form a steering committee that would work through the issue and report to NEC in the next meeting. We did not identify any follow up from NEC in later minutes from NEC meetings.

Our review did identify, however, that staff members signed an employment contract every year. According to the employment contracts reviewed, and the information provided to us by those staff we interviewed, salaries are paid in local currency (MWK) only.

##### **Lack of employment contract**

During the site visit at NONM, BDO was informed that one employee, the assistant of the accountant, did not have a written employment contract. He was not employed in the NNO project. According to information received through an interview with the assistant, he started to work for NONM as a volunteer and worked on different projects. He worked on a project funded by Cordaid until August 2015. He has been continuing the work for NONM in the NONM PROPER project (financed by NONM members) since August 2015 with no employment contract or salary. The assistant informed BDO that this was a temporary solution. He was waiting for the approval from the Board of directors (NEC) of the new terms of employment before signing a contract. He was told that the new employment contract would be effective from 1 January 2016 and that he will receive a monthly salary from the same date. The assistant has his own office in the NONM building and assisted the review team during the field work in Lilongwe.

##### **Deviation of salary payments**

During the interviews with employees at NONM, BDO received confirmation that monthly salaries are equivalent to the salary stated in the employee agreements and the payroll records.

Both NONM's ED and its accountant informed BDO of the procedure for the exchange of currency from the receipt of funds from NNO in USD and the monthly payments of salary to NONM's staff members in local currency. Shortly before the payment of monthly salary, NONM exchange an amount from the NNO USD bank account which is equivalent to the payments due for the NNO funded project, including net salary. The amount in local currency is then paid as the net salary to staff members. Similarly, they exchange an amount from the same NNO bank account in USD to local currency shortly before paying the deductions made for all staff members (tax, pension, social welfare, SACCO fund and more).

At the end of each year, the accountant determines the compensation to be paid to all employees as a result of foreign exchange differences between USD currency and local currency in their salary that year. This compensation is paid as an increase in salary for the subsequent year. According to NONM's accountant, this process ensures that the staff members receive approximately the USD equivalent of their salary each year.

In addition, NONM pay a gratuity of 20% of the employee's annual salary once a year.

BDO has examined a sample of employment contracts, and found that the increase, as described above, is not incorporated in the contracts. Several employees have the same salary documented in their contracts for the entire 2013 to 2015 period, although our review identified that there has been an increase in basic pay, according to the payslips reviewed during the same period. As a result, there are deviations between the basic pay specified on the payslips and in the cash book, and the monthly salaries according to the contracts.

The following tables presents the identified deviations, for the sample of employees tested:

Position	2015			
	Basic pay on payroll (MWK)	Salary according to contract (MWK)	Deviation (MWK)	Deviation (%)
	1 150 000	830 000	320 000	39 %
	510 000	370 000	140 000	38 %
	280 000	200 000	80 000	40 %
	350 000	288 000	62 000	22 %
	110 000	95 000	15 000	16 %
	45 000	45 000	-	0 %
	30 000	30 000	-	0 %

Position	2014			
	Basic pay on payroll (MWK)	Salary according to contract (MWK)	Deviation (MWK)	Deviation (%)
	1 004 750 / 830 000	830 000	174 750 / 0	21 %
	442 950 / 370 000	370 000	72 950 / 0	20 %
	232 200 / 200 000	200 000	32 200 / 0	16 %
	341 800 / 288 000	288 000	53 800 / 0	19 %
	95 000	95 000	-	0 %
	40 000	40 000	-	0 %
	25 000 / 21 000	25 000 / 21 000	-	0 %

Position	2013			
	Basic pay on payroll (MWK)	Salary according to contract (MWK)	Deviation (MWK)	Deviation (%)
	830 000	830 000	-	
	370 000	370 000	-	
	200 000	200 000	-	
	288 000	288 000	-	
	95 000	95 000	-	
	40 000	40 000	-	
	21 000	21 000	-	

#### Information provided by NNO

██████████ (NNO special advisor responsible for funding of NONM in the period 2005 until March 2015) has informed BDO that the salary in NONM is paid on a monthly basis. If there are funds allocated to salary not spent at year-end, the remaining funds are to be paid out to the employees as a "13<sup>th</sup> payroll" handling. Any outstanding funds which are the result of currency gains are too distributed to the employees as a 13<sup>th</sup> payroll. BDO did not find any payment of a 13<sup>th</sup> payroll and no information of such payments were provided by NONM's ED or its accountant.

Gratuity is 20% of the employee's annual salary. The 20% is held kept by the employer and paid out when an employee contract is terminated.

NNO has informed NONM that all employees in the NNO project should have an employment contract.



## Information provided by NONM during the quality assurance process

*Deviation of salary payment*

«The issue of allegation made by junior staff members in 2014 that they were under paid and claiming that they were entitled to receive the equivalent of the USD amount that had been budgeted for salaries as funded by NNO was not followed up fully by the team because the issue was resolved through an ad hoc NEC meeting with the support of the previous Special Advisor [REDACTED] on 20<sup>th</sup> August 2014. A document concluding on the issue was produced and shared with NEC members. Please see attachment with the conclusions and schedule for back payment to staff that were affected.»<sup>1</sup>

*Procedure for exchange of currency from the receipt of funds from NNO in USD and the monthly payments of salary to NONMs staff members in local currency.*

«The explanation was that NONM periodically transfers funds from the Dollar account to the local account. The amount transferred depends on the expenses that are supposed to be made including salaries.»

## Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	Remaining funds allocated to salary in the budget are not paid out as salary (e.g. there is no 13 <sup>th</sup> payroll, as stated by the NNO representatives)	<p>NONM should clarify the requirements from NNO to ensure proper payment of salary to staff members according to the NNO budget.</p> <p>NONM should implement a procedure to ensure payments of salary according to requirements from NNO.</p> <p>Information should be given to employees to ensure transparency of payments equivalent to USD every year.</p>	H

<sup>1</sup> See appendix 1 for the attachment referred to in the information provided by NONM during the quality assurance process.

#### 4.10. Sustainability project

BDO was informed that the purpose of the 'sustainability project' is to position NONM as a financially viable organisation.

BDO has reviewed the documentation for all costs allocated to the accounting line 'sustainability project' for the NNO project for the year 2015, in order to verify whether the costs have been correctly allocated.

Costs allocated to the accounting line 'sustainability project' are primarily related to:

- Building of a playground.
- Building of the wellness centre (cement, stones / bricks, roof materials, labour, transport).
- Purchase of summerhut grass.

Below are transactions allocated to the sustainability project where we question if the costs are correctly allocated:

- Payment of allowance and fuel to the Treasure [REDACTED] of 36,000 MWK (cheque number 004056).  
Payment slip is the only underlying documentation found.
- Payment of water costs of 349,650 MWK (cheque number 004031).
- Payment of water costs of 1,900,000 MWK (cheque number 004086).
- Payment of security services (period September and October 2015) of 1,061,315 MWK (cheque number 004105).
- Payment of internet services (3 months, 8 users) of 380,635 MWK (cheque number 004109).
- License of payroll and HR system (period November 2015 - October 2016) of 84,812 MWK (cheque number 004127).
- Payment of meals and teas at the restaurant in the NONM building (for the month October 2015) of 199,600 MWK (cheque number 004128).

Information about the sustainability project was provided to the Board of directors at the NEC meeting that was held on 22. November 2012. According to minutes from the NEC meeting, the offices in the new NONM building were rented out and started to generate some funds for NONM. BDO was not able to verify any income from agreement with tenants due to a lack of written contracts and documented payments from the tenants in the period 2013 to 2015.

#### Information given by NNO

NNO has informed BDO that the content of 'sustainability costs' (activities and type of costs) is discussed between NONM and NNO at the beginning of each year. Sustainability costs should relate to activities engaged with the aim at making NONM a financially viable organisation, e.g. building of infrastructure and buildings. Sustainability costs should not include costs related to ongoing operations.

NONM has reported the following projected income (2015) gained from activities categorised as "sustainability projects" (NONM ESSENTIAL EXPENSES - Sustainability Analysis - 2015):

	MWK	US \$
<b>GRAND TOTAL COSTS (Exact figures)</b>	<b>96,611,000</b>	<b>222,094</b>
<b>PROJECTED INCOME 2015</b>		
RESTAURANT	2,400,000	5,000
MEMBERSHIP	6,000,000	14,000
OFFICE RENTAL	17,280,000	39,000
OTHERS ( Car hire, weddings, boardroom)	2,210,000	5,000
<b>TOTALS</b>	<b>27,890,000</b>	<b>63,000</b>

<b>Financial Sustainability 2015:</b>	<b>28 %</b>
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## Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	<p>A lack of written guidelines regarding the type of costs that may be considered as sustainability costs.</p> <p>Questionable cost allocated as sustainability costs in NONM's records.</p>	<p>NONM and NNO should define guidelines regarding the type of costs and activities that count as sustainability costs co-funded under the NNO project. The guidelines should be in writing and ensure that no "operating cost" are correct allocated to the sustainability project.</p> <p>The guidelines should also ensure that no NNO funds are used in the sustainability project without proper consent from NNO.</p>	M

In addition, it is recommended that NONM reports to NNO on the sustainability the activities performed (activities NNO has Co-founded as part of the 'sustainability project'), the progress and timetable, as well as the financial information for each activity, including the income the activity generates.

#### 4.11. Vehicles

NONM has five cars in total. Three of the cars are listed as capital investments in the NNO project.

Description	Year of purchase
Toyota Hiace	2010
Nissan Navara NU 6404	2011
Toyota Corolla NU 8037	2014

NONM's staff are not allowed to use the vehicles privately. The vehicles are only to be used for NONM-related activities. NONM has currently one person employed in the position as "Driver".

BDO was informed by NONM that the cars are used by NONM employees for errands (e.g. trips to the bank), site visits at NONM stations in the field and the transportation of NONM guests.

Further, the minivan is rented out (with a driver) in order to generate income for NONM. Those who rent the vehicle pay for fuel. BDO has been informed that the minivan is rented out approximately once a month during the high season (period of 6 months), and "almost never" during the low season (period of 6 months).

BDO has been informed that NONM's ED uses one of the vehicles privately.

##### Logbook and the use of NONM cars

BDO reviewed the logbooks for the cars located on the NONM property during the site visit (four out of five cars). The review revealed incomplete records maintained in the logbooks. For one of the cars the logbook was missing. BDO was not able to verify the use of NONM cars according to the procedure owing to the lack of records and logbook. Based on information received during our visit it is likely that the cars are also used for private purposes. To our knowledge, there are no records of private use.

BDO questions the number of cars needed for NONM.

##### Fuel

Fuel is relatively expensive in Malawi. The fixed price for fuel is set by the Government and is the same at all petrol stations. NONM's accountant determines an amount each week to be designated to fuel costs. The employee driving the car at the time is responsible for refuelling. Most of the receipts for fuel we found as part of our sample testing contained information of the registration number of the car that was written by hand.

Receipts for fuel are not recorded in a way that BDO can verify whether the fuel has been used for NONM-related purposes only. In our sample testing for two months in 2015, we found receipts of payments for fuel for at least one car not owned by NONM. These receipts were not allocated as cost recovery for any named person.

We also reviewed vouchers for fuel costs. In most of these cases the fuel costs was accounted for as refund of cost of fuel when traveling to workshops or meetings for NONM.



## Observations, risk and recommendations

#	Observation and risk identified	Recommendation	Priority
1	Lack of complete recording of log books	<p>The requirement to maintain a logbook for each of the NONM vehicles should be adhered to. The logbook should also record the filling of fuel and it should be confirmed in writing of the person performing the refuelling.</p> <p>To ensure compliance, it is recommended that the driver conducts a weekly review of each logbook. This will help to ensure detection of any missing registrations within a period that enables for correction of the log. Any deviation of the procedure of proper maintenance of the logbook should be reported by the driver in writing to the ED.</p>	M
2	Lack of control over fuelling cost	<p>NONM should consider implementing the use of a 'fuel card'. A 'fuel card' will facilitate increased visibility, transparency and control of fuel related costs. Any staff member refuelling should be responsible for identifying the registration number of the car refuelled and ensure that a proper record is made in the logbook.</p>	M

#### 4.12. Quality control of audit

A visit at the local auditor, Mwenelupembe, Mhango & Company (MM&Co), and a review of the audit documentation for the years ended 2013, 2014 and 2015 was performed by Marianne Farholm and Kudakwashe Chima on 8 of April 2016. Audit partner [REDACTED] and audit manager [REDACTED] were present from the local team.

The local team was informed of BDO's review of the years 2013 and 2014 approximately one week in advance of the review team's visit. As the audit of 2015 had just finished at the time of the visit, the BDO team also chose to review the 2015 documentation, although the local team was not informed of this in advance.

The scope of audit performed by MM&Co was for the financial statements of the project "Organizational Strengthening & Sustainability Project Phase II" financed by the Norwegian Nurses Organisation only.

The audit for all three years was documented using hard copies, and the documentation covered the following main areas:

- **Planning:** Including planning memorandum, materiality, risk assessment and description of audit approach.
- **Execution:** Including working papers and documents regarding the audit of income, expenditures, bank balances and cash, tangible fixed assets, debtors and prepayments, creditors and accruals.
- **Completion:** Including completion memorandum, engagement letter and management letter.

The table below summarises our comments regarding the review:

#	Area	Observation
1	Letter of representation	For the years 2013 and 2015, there is no Letter of Representation signed by NONM.
2	Review	For the year 2015 the review of the work performed by the associate had not been completed by the date of Auditors' Report.
3	Personnel costs	<p>For all three years, the auditor had planned to trace the salary to supporting documents such as employee contracts or board minutes authorising increments.</p> <p>For the years 2013 and 2014, the auditor had verified that the basic pay was in line with the budget. For the year 2015, the auditor had verified the basic pay against the personnel files. For all years, no exceptions were noted.</p> <p>The BDO team has discovered deviations between the employee contracts and the basic salary. In our opinion, the local auditor should also have discovered this if the audit had been performed according to plan.</p>
4	Final postings	<p>For all three years, there are differences between the cash book and the final financial statements.</p> <p>According to the local auditor, these differences are a result of the final postings done by the auditor. We have requested a list of the final postings for all three years, but we have yet to receive this. Therefore, we have not been able to verify the auditor's information about the cause of the differences.</p>

Our overall conclusion is, despite the above-mentioned deficiencies, and given the scope described above, that the audits, in all material respects, are performed according to the International Standards of Auditing and the donor agreement, and that the local auditor has obtained sufficient and appropriate evidence to draw their conclusion.



## 5. CONCLUSIONS

BDOs review of NONM has uncovered weaknesses in the Internal Control of NONM. Our review revealed non-compliance with contractual conditions, local government regulations, and written internal procedures (according to the Financial Procedure Manual).

NONM has not maintained a general ledger nor prepared income statement or balance sheet for the years ended 2013 to 2015. NONM has only maintained a 'cash book' for the NNO project for the period 2012 to 2016.

Due to a lack of proper books and records, BDO has not been able to conduct a detailed review of NONM's books and records. The lack of any proper accounting system and the lack of complete and up to date financial accounts represent an increased risk of misstatements due to error or fraud.

The review of NONM's internal control has revealed several weaknesses and areas of non-compliance. Some of the weakness identified are considered material. Material weaknesses in internal control increase the likelihood that internal control will not prevent or detect material misstatements in the financial statements.

Furthermore, the review team identified non-compliance with the local law and regulations. This represents a risk of financial losses as a result of penalties and interests on unpaid taxes. The total risk of financial loss due to non-compliance with appropriate local regulations and/or legal framework is estimated by the BDO team to be approximately MWK 11.8 million. According to our understanding, NONM would not be able to pay this based on its current financial situation.

We also identified findings that may represent non-compliance with the Main Contract between NNO and NONM. For example, in 2015 less than 20% of the total number of members in NONMs membership database paid the annual membership fee (2,120 out of 11,695 members). The low figures of paid membership calls into question the actual number of members in NONM. NNO has reported the low numbers of paid membership in their application of 2015 to NORAD. The Main Contract between NNO and NONM states that NONM shall represent 90% of the nurses and midwives in Malawi<sup>2</sup>. It should also be noted that the implementation of a check-off system for membership fees was not completed as at April 2016.

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<sup>2</sup> Success indicator (expected result or outcome) to be attained during the contract period

## 6. APPENDICES

- 6.1. Appendix 1: NONM's response to the draft report by BDO
- 6.2. Appendix 2: Pay As You Earn (PAYE)
- 6.3. Appendix 3: VAT
- 6.4. Appendix 4: Training levy
- 6.5. Appendix 5: Pension
- 6.6. Appendix 6: SACCO regulations





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