

From: [REDACTED]
Sent: 27 April 2016 20:44
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education
Attachments: SG_detailed report_SENT_27_4_16.pdf; Annexes_SG detailed report_SENT_27_04_16.pdf

Dear [REDACTED]

As planned according to the email below, please see attached CBM's Detailed Report on Initial Internal Audit Findings, along with the annexes referred to in the report.

I remain available to discuss this with you in more detail.

Kind regards,

[REDACTED]

From: [REDACTED]
Sent: 22 April 2016 16:20
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Dear [REDACTED]

As a follow up to the summary report sent to you on 15th April, we are planning to submit to you a detailed report from CBM's Regional Director in Southern Africa by 27th April.

Montfort College has been responsive over the past week and has moved the investigation forward through a series of hearings. An extraordinary board meeting of Montfort College has been called for 25th April which will clarify their proposed way forward. CBM's internal analysis is complete, however we want this report to integrate any conclusions from the investigation and the board meeting.

Kind regards,

[REDACTED]

From: Alison O'Connell
Sent: 18 April 2016 17:15
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Dear [REDACTED]

Many thanks for your response – we await the outcomes of your internal discussions on this matter.

Could you kindly clarify one point with regards to the suspension of expenditure? The only ongoing activity at this time is the final evaluation, which is being conducted by external consultants based on a contract between CBM and the consultants. At this stage we are over mid-way through the evaluation

process and partial payment has been provided, with the final payment pending on submission of the report which is due in May.

We fully understand your need to minimise any potential risk, however payment to the consultants is contractually based and interaction is directly between CBM and the consultants. The external evaluation team is also currently in the field and will incur some operational costs for their final data collection.

Should the evaluation be suspended during this period?

If this is the case we will, of course, immediately comply, however we thought best to inform you of this and that in the case of suspension their return to Lilongwe will also incur some operational costs.

Kind regards,

[REDACTED]

From: [REDACTED]
Sent: 18 April 2016 14:30
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Dear [REDACTED],

Thank you for notifying us of the internal audit's findings and for providing the detail below. These are obviously concerning developments and we will be holding internal discussions as to how best to proceed. I will get back to you towards the middle of this week with further information, but in the meantime I would ask that all expenditure on this project is suspended until we give further notice.

Kind Regards,
[REDACTED]

[REDACTED]
International Development
Scottish Government

The Scottish Government is currently conducting a public consultation on our International Development Policy: the Consultation will be open from 24th February to 20th May 2016. Please see our website to read more about the consultation process and submit a response:
<http://www.gov.scot/Topics/International/int-dev/IDconsultation>

From: [REDACTED]
Sent: 15 April 2016 18:16
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Dear [REDACTED], dear [REDACTED]

Following from our previous exchanges, as stated below, CBM's internal audit exercise, which began with an on-site visit of Montfort College at the end of February 2016, was extended up until April 2016. This was due to the high level of financial documentation for the project and CBM's intention to verify 100% of expenditure, given previous audit findings. In addition, in line with the findings of previous audits, there were gaps in documentation, as discussed in our most recent meeting, and the extension of the audit allowed these gaps to be identified and assessed. This extension was overseen by the Head of Finance at the Regional Office and ended with a further visit by her to Montfort College as of 4th April. The results of this exercise will form part of the internal audit report, which is now under finalisation.

However, the findings from this week of the latest review of the documentation and the visit of the Head of Finance of the Regional Office require to be notified immediately to the Scottish Government as, in addition to expected findings on expenditure with insufficient documentation, unfortunately there is a new discovery of suspected fraud. Further detail is in the attached summary report – Montfort College has been given until the 22nd April to respond to the findings.

The attached summary report is due to be followed next week with a more detailed report from CBM's Regional Director in Southern Africa which will outline in detail the summarised findings along with a clear plan of action to address these. The internal audit report of Montfort College, which is in the process of finalisation, will also be submitted to the Scottish Government.

In the meantime, I am fully available to meet with you to discuss these immediate findings in further detail.

Kind regards,

[REDACTED]

From: [REDACTED]
Sent: 08 April 2016 13:01
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Dear [REDACTED]

Many thanks for the detail you have provided below, and for coming in to see us with [REDACTED] last week.

On your requests to amend the budget/activity plan as per the table below:

Staff - I'm afraid we are unable to approve the payment of salaries beyond 31st March 2016, as this is the official project end date. Any additional funds required for M&E activity should be included in the original project budget for this component.

Monitoring and Evaluation – We are happy to approve both the costs for a final monitoring visit by the Scottish project lead in April to oversee the End of Project Report evaluation process, and the regional flights for Internal Audit staff from the Regional Office.

Implementation

Output 1 – Could you provide more detail on the refresher training you are proposing? Specifically, why has this particular aspect been chosen for consolidation? How long will this training take to complete?

Output 2 – I am happy with the adjustments you are making regarding this budget line.

M&E - In-country running costs associated with M & E should be included in the in-country running costs sub-heading. Does this mean there will be an overspend on this budget headline? If so, we would likely be able to approve this given the underspend in other areas and the imperative of conducting a thorough evaluation of this project.

Dissemination – Was this change to dissemination activities approved by us in advance? Although there is not a substantial overspend resulting from this, it could have a bearing on other aspects of expenditure across the budget.

At our meeting, we also discussed aspects of expenditure for which you feel there is not enough evidence in the form of receipts, supporting documentation, etc., and your suggestion that this not be charged to the SG grant if this is so. I emphasised that we will want a full report on expenditure, and will decide thereafter whether there are any items we cannot charge to the SG grant.

I hope this is all reasonably clear, and don't hesitate to get in touch if you would like further clarification,

[REDACTED]

[REDACTED]

International Development
Scottish Government

0131 244[REDACTED]

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<http://www.gov.scot/Topics/International/int-dev/IDconsultation>

From: [REDACTED]
Sent: 23 March 2016 16:09
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Great, [REDACTED], thanks for this.

See you tomorrow,

[REDACTED]

From: [REDACTED]
Sent: 23 March 2016 16:07

To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Hi [REDACTED],

Many thanks for laying out this detail for us. I agree it would be good for us to meet to discuss the outcomes of the audit, so let's go with 3 pm on 24th March as we discussed this morning.

I look forward to seeing you tomorrow at 3,

[REDACTED]
[REDACTED]
International Development
Scottish Government

0131 244[REDACTED]

The Scottish Government is currently conducting a public consultation on our International Development Policy: the Consultation will be open from 24th February to 20th May 2016. Please see our website to read more about the consultation process and submit a response: <http://www.gov.scot/Topics/International/int-dev/IDconsultation>

From: [REDACTED]
Sent: 15 March 2016 16:42
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access to Education

Dear both,

Many thanks for the constructive meeting prior to my departure to Malawi – apologies for the delay in this email - I needed further information from my colleagues at our Country Office and partner in Malawi before providing the details of planned expenditure to you.

As discussed, a CBM internal audit was conducted of Montfort College at the end of February – involving me, a member of CBM's Internal Audit unit from our International Office and the Finance Officer from the Regional Office. Due to the high level of financial documentation for the project and CBM's intention to verify 100% of expenditure, given previous audit findings, the exercise has been extended and is still ongoing. This is being overseen by the CBM Regional Office for Southern Africa and is expected to be completed at the end of this week. In line with the findings of the previous audits shared with you, there are gaps in documentation and the exercise will allow these gaps to be identified and assessed. The results of this exercise will form part of the audit report – which is still due to be drafted by the end of March.

We agreed to meet again so I can present the findings on my return from Malawi – can I suggest that we do so at the end of the week of 21st March – so I have the draft findings available, including of the supplementary exercise mentioned above? Would from 3pm onwards on 24th March be a possibility for you? This date coincides with CBM's Scottish Country Strategy Panel, which will take place in the morning– so [REDACTED], our Director of International Programmes, will also be here and able to attend the meeting.

As we discussed, I will also present to you any further changes to the reported figures at that point.

Following which, CBM will submit restated reports for each project year. As regards the exchange rate, we will revise to use the rate at the time of transfer from GBP to MWK – as you recommended at the meeting – this will be reflected in the restated reports.

We also discussed at our meeting different points related to expenditure up to the end of the project period. This includes expenditure after the end of the project implementation period, as regards expenditure related to the wrap up of the project (evaluation, reporting, dissemination). In the table below you will find the main elements of planned expenditure summarised. With the planned changes below, we are estimating expenditure at approximately 267,682 GBP over the 3 year period – in line with the total grant amount. Although we are awaiting the restated reports from Y1 and Y2, it is not anticipated that this will have an impact on Y3 expenditure plans and some expenditure needs to be conducted before the end of March - so we request your confirmation on the points in the table below.

Kind regards,

[REDACTED]

Budget line

Initial

forecast

budget

for Y3 – at

time of Y2

report

(GBP)

Approximate

forecast

budget for Y3

(GBP)

Proposed nature of expenditure/

Comments

Staff

23,653

22,435

Costs will be in line with forecasted amounts for Y3 at the time of submission of Y2 report.

Included in the costs are costs for partner staff – to cover the period up to 30/04/16, when reporting and documentation will take place, and final payments. This is within the existing budget amount available for the staff members. Can you confirm that this is acceptable from the Scottish Government perspective?

In-country running

6,120

6,120

No changes. To be spent as per forecast amounts for Y3 at the time of submission of Y2 report.

Travel and Subsistence

23,540

19,079

International and regional flight costs are planned to cover flight costs for the monitoring visit of the Scottish Project Manager, along with flight costs for the 2 Internal Audit from Regional Office team members travelling from Nairobi and South Africa. Note that the visit of the Scottish Project Manager was already planned as part of the travel budget and Regional Office monitoring costs were also foreseen within the travel budget.

It is proposed to add an additional visit of the Scottish Project Manager prior to the end of April to support the end of project evaluation and the closure of the project. This, along with slight increases as a result of the flight costs mentioned above, will increase the Y3 budget for international travel from 3700 GBP as per the forecast in the Y2 report to 4,765 GBP.

It is noted, however, that the project was underspent on this budget line in both Y1 and Y2, so overall there is not an increase compared to initial plans over the 3 year period. In addition, both national travel and subsistence budget lines will be underspent compared with the forecast.

Can you confirm the eligibility of the costs of the Internal Audit flights, along with the addition of a final visit of the Scottish Project Manager?

Implementation

Output 1

0

3,437

Expenditure under output 1 was not planned at the time of the Y2 report in Y3, however, there is relevance in conducting a final training session of the Community Rehabilitation

Workers in collaboration with MACOHA in order to support sustainability after the end of the project related to the role played by the Community Rehabilitation Workers in inclusive education.

This is therefore an increase of 3,437 GBP for output 1 to be used for training and the publication of a training manual for Community Rehabilitation Workers. Can you confirm that adding costs for Output 1 is acceptable?

Output 2

7510

4,247

Overall output 2 expenditure is now planned to be lower than the forecasted 7510 GBP at the time of Y2. Although there will be no expenditure on the Refresher Training of SNE teachers (as formal training was not conducted in Y3, rather on-the-job support) and increased expenditure on SNE Teacher Assessment, as part of the end-line assessment and on the publication of training material developed during the project.

Output 3

28,633

22,594

Output 3 expenditure is planned to be slightly lower than the forecasted amount, although activities have been conducted as per plan. There are remaining activities in terms of the publication of training and sensitisation material developed during the project.

M&E&L

9,500

17,449

External evaluation costs were already foreseen and are increased, added to this End of Project Evaluation budget line now are also the internal audit costs. This includes all in-country costs for the internal audit.

Can you confirm that coverage of in-country costs of the Internal Audit are acceptable within this budget line – otherwise a new budget line can be created?

Dissemination

5,000

8,341

Dissemination costs have been increased, related to the documentation of the results of the project, through photography, a lessons learnt workshop in Malawi and dissemination work in Scotland.

Capital

3,750

3,227

As advised – the planned expenditure on daisy readers was removed to remain in line with capital expenditure limits of 15% of the overall budget amount. No additional capital has been added. This is now at 3,227 GBP, which is below the forecast budget for Y3 of 3750 GBP at the time of the Y2 report.

From: [REDACTED]

Sent: 16 February 2016 08:22

To: [REDACTED]

Cc: [REDACTED]

Subject: MW02 Equitable Access to Education

Dear [REDACTED],

Many thanks for agreeing to a meeting this afternoon – looking forward to meeting you. In advance of the meeting, please see attached the revised financial report and forecast until the end of the project for discussion. I will brief you on this today.

Kind regards,

[REDACTED]

[REDACTED]

Programme Manager, Southern Africa

CBM UK

Eric Liddell Centre, 15 Morningside Rd, Edinburgh, EH10 4DP

Mobile: [REDACTED]

Email:[REDACTED]@cbmuk.org.uk

Skype: [REDACTED].oc

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Dh'fhaodadh gum bi teachdaireachd sam bith bho Riaghaltas na h-Alba air a chlàradh neo air a sgrùdadh airson dearbhadh gu bheil an siostam ag obair gu h-èifeachdach neo airson adhbhar laghail eile. Dh'fhaodadh nach eil beachdan anns a' phost-d seo co-ionann ri beachdan Riaghaltas na h-Alba.

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This email has been received from an external party and has been swept for the presence of computer viruses.

PROJECT AUDIT REPORT

Country:	Malawi	Project No.:	P2951
Project:	Scottish Government Grant	Project since:	2014
Partner:	Montfort College	Last visit:	August 2014

Date of visit: 9th – 10th February 2015

By: [REDACTED] (CBM Regional Office Southern Africa) and [REDACTED] (CBM Country Office Malawi)

Report written by: [REDACTED]

SCOPE

The scope of the audit includes:

- Cash handling
- Finance Policies and procedures
- Audit of general ledger
- Audit of Supporting Documents

OBJECTIVES

The audit was done to follow up on previous recommendations made in May 2014 and further evaluate the adequacy of controls and processes related to the above scope.

SUMMARY OF FINDINGS

- Improvements have been made from the recommendations from the last visit in May 2014
- Daily transport allowance has been changed to personal mileage claims without CBM authorisation
- Supporting documents still need improvement and prior documents corrected
- Recording and Allocations of expenses within SAGE are not always allocated to the correct budget line and journals are inadequately processed.

UPDATE ON OBSERVATIONS FROM PREVIOUS VISIT IN MAY 2014

Observation 1: Tax and Travel on Staff Salaries

Original Findings: It was found that tax was not being calculated correctly on staff salaries and on the travel allowance that was being received by staff.

CBM Recommendations: Tax needs to be calculated correctly on salaries and travel allowances and paid over to MRA

Montfort College Actions Taken: Recommendations Implemented

Observation 2: Advances given to Staff to implement project activities

Original Findings: It was found that project staff were given advances to implement project activities. These advances were not being correctly reconciled post the activity and recorded into SAGE correctly.

CBM Recommendations: Advances need to be reconciled and correctly entered into SAGE. Examples were given on how to do this and, show the correct supporting documents including any cash remaining.

Montfort College Actions Taken: Recommendation Implemented

Observations 3-5 & 7: Various observations made on supplying adequate supporting documents for expenses made.

Original Findings: It was found that various expenses did not have adequate supporting documents. These included Internet, Telephone, Water and Electricity, In Country Travel/Per Diems, Motor vehicle fuel claims etc.

CBM Recommendations: Every expense requires adequate supporting documents. These documents are over and above internal documents (Montfort Payment vouchers and cheques). Examples of documents were provided.

Montfort College Actions Taken: Recommendation Implemented.

Observation 6: Entering Transaction into SAGE Pastel

Original findings: Certain entries captured into SAGE were not allocated correctly to specific budget and broken down to show specifics of the expense. Advances were also entered as a lump sum into an expense account before reconciling the expenses from the advance

CBM Recommendations: Specific transactions (Journals and changes) were given to Montfort on each expense that needed correcting and reallocation.

Montfort College Actions Taken: Recommendation Implemented.

Observation 8: Segregation of duties

Original findings: No segregation of duties by the Project Accountant. He was handling, all cash, cheques, banking and recording transactions into SAGE.

CBM Recommendations: Segregation of duties is required for the project accountant.

Montfort College Actions Taken: Recommendation Implemented

OBSERVATIONS AND ACTION PLAN FOR RECENT VISIT FEBRUARY 2015

Following is tables detailing all the observations from the audit along with space for the management of Montfort College to state their action plan to address these issues and dates by when these issues need to be cleared up

Table of Observations:

Observation #1	Private Vehicle Mileage Claims
<p>In July to December 2014 financial report Personal vehicle mileage claims were made by Project Manager [REDACTED] and Project Accountant [REDACTED] to travel from home to the office and office back home every work day.</p> <p>These claims are not in line with the standard transport allowance allowed under the project (i.e., MK 25,000 per month for [REDACTED] and [REDACTED] and reported in previous reports to the SG. This new system of mileage claim was never authorised by CBM.</p> <p>CBM did not report these claims as expenses in the last Scottish Government Financial report ending December 2014.</p>	
Corrections/ Actions to be taken	
<ul style="list-style-type: none">- All funds to be reimbursed into the projects bank account.	
[REDACTED]	
BV000170	211 428,00
BV000186	180 770,94
BV000209	250 883,28
BV000219	257 947,20
BV000242	243 754,56
Total Claimed	1 144 783,98
Less Travel Allowance Allowed (Rate of MWK25 000 per month)	125 000,00
Total to be paid back	1 019 783,98
Total in Pounds	1 508,93

[REDACTED]	
BV000171	195 872,97
BV000185	107 677,26
BV000210	216 639,36
BV000226	241 057,80
BV000244	214 406,90
Total Claimed	975 654,29
Less Travel Allowance Allowed (Rate of MWK25 000 per month)	125 000,00
Total to be paid back	850 654,29
Total in Pounds	1 258,67

- All claims to be removed from the general ledger expense account and reallocated to the individuals staff account within SAGE. When funds have been repaid by staff member they must be allocated to the individual staff account.

Action Plan

Person Responsible	[REDACTED]	Estimated Completion Date	To be confirmed by CBM Country office and Montfort College.

Observation #2

Withholding Tax paid on Vehicle Mileage Claims

Withholding Tax is an advance payment of income tax that is deducted from specified payments. Withholding Tax is deducted using specified rates (14th Schedule to the Taxation Act).

WHT was deducted from the personnel mileage claims and paid over to Malawi Revenue Services and then expensed in the general ledger account (Mileage Claims)

The following table shows amounts paid over for WHT and shown as expenses in the general ledger.

BV000180	[REDACTED] WHT	23 492,00
BV000180	[REDACTED] WHT	21 763,66
BV000191	[REDACTED] mileage claim WHT	11 964,14
BV000191	[REDACTED] Mileage Claim WHT	20 085,66

BV000215	WHT - TAX Mileage Claim	66 346,96
BV000231	WHT - TAX for Mileage Claim	66 346,96
	Total	209 999,38

Corrections/ Actions to be taken

- Malawi Revenue Authority (MRA) should be contacted and explained that the mileage claims are no longer being claimed by Montfort and need to be cancelled and whether the amounts can be:
 - 1) Re allocated to PAYE for salaries or
 - 2) Reimbursed back to Montfort College by MRS.
- CBM needs to be informed of what the outcome of the discussion was with the MRA.
- The total amount of MWK209 999.38 needs to be removed from the expense account (Mileage Claim) in SAGE and reallocated to a supplier account in the interim.
- CBM will remove the amount in the next Scottish Government Financial Report.

Action Plan

Person Responsible	[REDACTED]	Estimated Completion Date	11th March 2015
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Observation #3 Mileage Claims for Montfort College Vehicle

The project has been using a Montfort College vehicle when doing project activities. Montfort College charges the project based on the mileage travelled. A log book is used detailing this but is not attached to the payment voucher/invoice.

The project also puts fuel in the vehicle, pays for repairs, insurance and vehicle licences. When paying for the mileage the

project at times takes off the fuel costs from the mileage claim total but not always, as there is no system to track if all the fuel purchased was subtracted from the mileage claim.

Due to there being no system in place for tracking whether the fuel was taken off the mileage claim, the project is at times paying both fuel and mileage.

Fuel, repairs, insurance and licencing should all be as part of the mileage claim and not over and above the mileage claim.

As per previous report this was advised:

a) "Montfort College Vehicles"

- *A log book has to be used to claim fuel purchases. See attached template to be used "Vehicle Log Book". Each vehicle should have one of these and whenever the vehicles is used the trip needs to be recorded. It needs to be made clear what the trip is for and for which project. Fuel cannot be claimed for any trips not related to this project.*
- *The full cost for repairs and servicing cannot be claimed from this project if the project is not using the vehicles full time, a percentage needs to be worked out depending on the kilometres travelled. The log books can be used to calculate this. "*

Corrections/ Actions to be taken

- Montfort College cannot be claiming mileage, fuel, and repairs, insurance and licencing on a vehicle that is not used full time for the project. Only claims can be for the time the project uses the vehicle and it is either per mileage or fuel, it cannot be both.

CBM recommends either of these options:

1. Mileage is claimed from the project and Montfort College must pay all other costs as part of the mileage claim (this includes fuel)
2. Montfort College get a per day rental figure for the vehicle and the project "hires" the vehicle out at that cost per day when needed for project activities. If this option is selected the project will put fuel in the vehicle over and above the hire costs but all other costs relating to the vehicle (repairs, insurance etc) must not be charged to the project.

Action Plan

Person Responsible	[REDACTED]	Estimated Completion Date	11 th March 2015
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Observation #4**Supporting Documents and Advances**

Per previous report May

For the period January 2014 – 27 May 2014, 70% of the transactions that have taken place do not have sufficient supporting documents and have not be recorded correctly within SAGE.

This is a total amount of MWK 12 524 945.00 which equates to EURO22 772.00

Transactions have now been recorded correctly in SAGE and advances are only expensed once all invoices are returned and reconciled with cash balance.

For the period January 2014 – 27th May 2014 the supporting documents have not been corrected.

For the period 1st June 2014 – December 2014 the supporting documents are all correct and have been audited by CBM.

Corrections/ Actions to be taken

- For the period January 2014 – 27th May 2014 the supporting documents/vouchers should be reviewed and correct source documents should be attached to payment vouchers.

Action Plan

Person Responsible	[REDACTED]	11 th March 2015

Observation #6**Attendance of Project Activities****Risk Ranking****High**

Despite previous strong advice from the Country Office, there is a tendency to allocate an excessive number of personnel to facilitate workshops and trainings (consequently pushing up the cost of the project unnecessarily). For example, quarterly budget forecasts submitted to CBM in the last 2 quarters show that the Project Accountant has been proposed to attend all trainings and workshops with only the role of handing out transport and meal allowance to participants and to do other minor administration tasks that can be undertaken by the Project Manager. These add superfluous costs to the trainings and workshops.

Corrections/ Actions to be taken

- As previously instructed by CBM, Project Account must not be attending trainings and workshops going forward.
- The Project Manager can hand out travel and meal allowance to participants and organise any other administration needed during the trainings and workshops.

Action Plan

Person Responsible	[REDACTED]	Estimated Completion Date	27th February 2015
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Date: 27th February 2015
 Signed: [REDACTED]
 Finance and Accounting Officer Regional Office Southern Africa

From: [REDACTED]
Sent: 13 March 2015 17:20
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access grant

Dear [REDACTED]

Greetings from Blantyre with intermittent internet access. I have only just seen your email. Please treat this as a holding reply while I get all the information that you have requested.

So just to start us off, but the balance will follow:

Yes, there was an internal audit of MW02 in May 2014. I haven't seen it and will ask for it. As far as I know there are no others, but I will double-check with my finance colleague in our Regional Office who conducts the audit.

Yes, CBM routinely audits their projects. I will find out for you if the February 2015 audit of Montfort College was because of timetabling or in response to concerns.

A Montfort College team of 4, the Project Officer, Accounts Officer, supervising Manager and in this unusual instance the Principal, met with the CBM Malawi, CBM Regional Office and CBM UK team, in Blantyre, yesterday. They presented to us the responses to our audit and we found it satisfactory. The individuals concerned have been put on probation by the Principal of Montfort College, who has agreed to meet with them once a week from now on, to check on performance, activity and accounting issues, to ensure compliance on both the issues thrown up by the audit and their response, and to performance issues. The probationary period ends at the end of April, and the relevant staff on this project will have their employment terminated at that point if necessary.

The assurance I gave you that there is no fraud remains. No money has been siphoned off this project into private pockets.

Yes, there have indeed been problems with employees wrongly claiming expenses from the project for travel from home to work and all these funds have been recovered from them and credited back to the project. Yes I will acknowledge withholding tax issue as soon as I can.

The issue with the use of the vehicle has also been resolved, and a system for proper record keeping set up. I can get more detail on this aspect and send it to you.

I am forwarding your email and my response to my colleagues in the Regional Office, CBM Malawi and CBM UK, with my request for the urgent assistance in meeting all your information requests in full.

With best wishes,

[REDACTED]

From: [REDACTED]
Sent: 12 March 2015 14:42

To: [REDACTED]
Cc: [REDACTED]

Subject: RE: MW02 Equitable Access grant

Dear [REDACTED]

[REDACTED] is getting ready for his visit to Malawi next week therefore I'm looking at this for him. Thanks for the Audit report. It seems from the report itself that this is not the first such report compiled in relation to this project. I would ask you to provide me with a copy of all Audit reports in relation to this Project. Could I also ask you to confirm what prompted the Project Audit i.e. do CBM routinely audit all their Projects in this manner or was there a specific concern that triggered this one?

The Audit Report shows that over £20,000 of Project funds have been incorrectly claimed and paid out during 2014. I note that you emphasize that there is no suspicion of fraud here. The Audit Report shows that at the least the Project has suffered from serious financial mismanagement, and I'm, to be honest, at a loss to see how there can be no suspicion of fraud. Could you explain why the view is that there has been no fraud?

In relation to the Audit Report I have a number of specific questions. These are:

Observation 1 - it seems that 2 staff members had been claiming travel expenses, amounting to (£3,000 approx) from home to their place of employment. I assume that the Project would not normally meet the expenses of employees getting to work. Therefore could you tell me how this occurred? Please also confirm what, if any, action (disciplinary or otherwise) was taken. I note that these funds have to be reimbursed to the Project. Please confirm whether or not these funds have now been reimbursed.

Observation 2 – Please confirm when the withholding tax is either re-allocated or reimbursed back to the project.

Observation 3 – This seems to be an on-going issue. The Project has at various times paid twice for the use of Montfort College's vehicle (fuel and mileage) because proper records have not been kept. It also meets the full cost of the insurance, repairs and licences for the vehicle. However, the loss to the Project caused by these practices have not been quantified. Please quantify the costs to the Project. You should also confirm that these practices have now ceased, and that the Project is now paying for the vehicle only when they use it, and that the Project has been reimbursed with any funds that were overpaid for vehicle use.

Observation 4 – I am concerned that payments worth approximately £18,000 (EURO 22,772) have been made by the Project without sufficient supporting documentation, and that they were then not recorded properly on the Project's systems. Please confirm how this happened. Please also confirm what, if any, action (disciplinary or otherwise) was taken in respect of this issue. Were all the payments actually due, did you require any of the funds to be repaid to the Project by the person claiming them?. Please confirm whether or not these funds have now been reimbursed.

We had agreed to meet to discuss this project further, therefore I shall send out a meeting request for the morning of Tuesday, 24 March 2015.

I look forward to meeting with you to discuss this matter further.

[REDACTED]

[REDACTED] | Malawi Development Programme Manager | International Development Team | The Scottish Government | Floor 3CN | Victoria Quay | Edinburgh | EH6 6QQ | Tel [REDACTED] | BlackBerry [REDACTED]

From:[REDACTED]
Sent: 27 February 2015 12:56
To: [REDACTED]
Cc: [REDACTED]
Subject: MW02 Equitable Access grant

Dear [REDACTED]

As agreed at our meeting on 19 Feb 2015, please find attached a copy of the report drawn up by [REDACTED], CBM's Regional Finance officer, following her internal audit of Scottish Government grant MW02.

I would like to re-emphasise the assurance I gave you at our meeting, that there is no suspicion of fraud. Ongoing close scrutiny has of the accounts and the receipts has revealed some unacceptable practices, which are being dealt with, but not of any attempts to siphon off money. Please rest assured that this level of scrutiny is indeed ongoing. You will see references to [REDACTED] previous visit in mid-May last year, and there will be future visits.

Please let me know if this report gives rise to any further questions you may have, and I will raise them with her.

With best wishes,

[REDACTED]

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Tha am post-d seo (agus faidhle neo ceanglan còmhla ris) dhan neach neo luchd-

ainmichte a-mhàin. Chan eil e ceadaichte a chleachdadh ann an dòigh sam bith, a' toirt a-steach còraichean, foillseachadh neo sgaoileadh, gun chead. Ma 's e is gun d'fhuair sibh seo le gun fhiosd', bu choir cur às dhan phost-d agus lethbhreac sam bith air an t-siostam agaibh, leig fios chun neach a sgaoil am post-d gun dàil.

Dh'fhaodadh gum bi teachdaireachd sam bith bho Riaghaltas na h-Alba air a chlàradh neo air a sgrùdadh airson dearbhadh gu bheil an siostam ag obair gu h-èifeachdach neo airson adhbhar laghail eile. Dh'fhaodadh nach eil beachdan anns a' phost-d seo co-ionann ri beachdan Riaghaltas na h-Alba.

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From: [REDACTED]
Sent: 27 February 2015 12:56
To: [REDACTED]
Cc: [REDACTED]
Subject: MW02 Equitable Access grant

Dear [REDACTED]

As agreed at our meeting on 19 Feb 2015, please find attached a copy of the report drawn up by [REDACTED], CBM's Regional Finance officer, following her internal audit of Scottish Government grant MW02.

I would like to re-emphasise the assurance I gave you at our meeting, that there is no suspicion of fraud. Ongoing close scrutiny has of the accounts and the receipts has revealed some unacceptable practices, which are being dealt with, but not of any attempts to siphon off money. Please rest assured that this level of scrutiny is indeed ongoing. You will see references to Catherine's previous visit in mid-May last year, and there will be future visits.

Please let me know if this report gives rise to any further questions you may have, and I will raise them with her.

With best wishes,

[REDACTED]

This email was scanned by the Government Secure Intranet anti-virus service supplied by Vodafone in partnership with Symantec. (CCTM Certificate Number 2009/09/0052.) In case of problems, please call your organisations IT Helpdesk. Communications via the GSi may be automatically logged, monitored and/or recorded for legal purposes.

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Notes of meeting with [REDACTED] and [REDACTED] at Scottish Government, 19/02/2015

1 FEDOMA grant: "Expanding Participation" MAL02 / P2809

[REDACTED] is not convinced that we will finish as per the original LF, even with a 6 month extension. I said we would, and asked what it would take to convince him.

[REDACTED] asked what could be taken out of the activity plan, if we were to submit a revised, scaled down activity plan + budget, which would give him confidence that we would complete. I said nothing was easily removed, especially at district level. If something had to go, probably best candidate would be national advocacy campaign, because that piece of work could be picked up on by another organisation (or us with another funder). But this opinion would have to be verified/over-ruled by CBM Malawi who are much more familiar with the work on the ground.

We discussed new plan for externally commissioned evaluation. [REDACTED] keen on this, but asked why introduce this now at this stage. I said because we thought this might be a flagship project, something CBM would be proud of and want to see highlighted in Malawi and across CBM internationally. Therefore extra credibility attaching to independence of external evaluators would be help in this respect.

[REDACTED] said six month no-cost extension request was very unusual. Other grant-holders might ask for one month, or maybe two, but not six. I pointed out that the intention to make this request had been mentioned all the way through the grant period, because of the late start up. Although we only submitted a written proposal last November, that was because it was asked for at that stage, not because the need was first identified at that stage.

[REDACTED] asked when payment would be made for external evaluation. October 2015? If so, that was an extension to the extension. This gives the SG problems.

Effect of kwacha devaluation shown where? I said this was part and parcel of the carry forward's at the end of each year, the GBP sterling amounts granted going further in local expenditure than anticipated, hence making it possible to ask for no-cost extension at the end of the 3 years.

[REDACTED] said that a response that general and unspecific was just about allowable for 2012-2015 grants round, but it wouldn't wash now. Grant-holders now have to account separately at reporting times, for currency gains.

I mentioned urgency of need for a decision. If SG were going to say no, we were going to have to give a month's notice now, to staff hired under this programme, and agree new activity plan to sort out what we could best achieve in just one month to end March 2015. [REDACTED] will discuss with [REDACTED] and give me an answer tomorrow 20/02/2015.

2. Montfort College grant: "Equal Access" MW02 / P2951

[REDACTED]

He asked if the internal audit recently conducted by CBM Southern Africa Regional Office showed up any fraudulent activity, or suspicion of such. I said no. On the financial side, there were concerns about mis-allocation of expenditure across budget lines, but we did not think that any money had been siphoned off. He asked to see the audit report. I said no, this was unfair, because the audit was undertaken on the basis that it was internal matter, for internal review only amongst CBM staff, and that I would give this response to any donor, not just Scottish Government. [REDACTED] pointed out that there was contractual obligation under the terms of the grant, in case of financial irregularity, so even if we didn't suspect fraud, an underspend of this size = financial irregularity and CBM would have to submit its internal audit report to SG. SG undertook to hold it in confidence.

I reported that CBM Regional Office, CBM Malawi and CBM UK all took the matter extremely seriously and that CBM RO was writing that day to the Principal of Montfort College, detailing concerns, demanding bold and prompt action re staff employed under this grant and making it clear that a review of CBM's partnership relationship, not just vis-à-vis Scottish Government but any donor, was now underway. The shape that review took would depend on the Principle's response to this situation.

I also reported that an evaluation of project performance would be taking place in first half March, led by Regional Office's education technical advisor. I would attend part of this during my 2 week visit first half March. [REDACTED] was also there who could report back on practical aspects of roll-out/training in use of computer-based assistive devices.

SG need to see revised LogFrame, activity plan/budgets asap. I said this would be one of the outputs of the mid-term evaluations workshops in March.

I am to arrange a meeting with SG during second half of March, if poss accompanied by [REDACTED] to:

- discuss revised LF/Activity Plan/Budgets, which I should have to hand, and project performance generally

- discuss internal audit report

- discuss state of play regarding Montfort College staffing on this grant, and the state of the partnership relationship generally

- discuss our intentions going forward. What did we propose to do? Can we add resource, human/financial, from other non-SG sources, to ensure we cover the agreed ground? Or are we going to slim down, and present to the SG the ground we really think we can cover in Y3?

I should [REDACTED] asap with 2 or 3 proposed meeting dates for second half March.

From: [REDACTED]
Sent: 17 March 2015 15:42
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access grant

Dear [REDACTED] ,

Thank you so much for your speedy reply. Now I see about the 'over £20,000'. Please can I re-emphasise both CBM's concerns over the past failures to obtain the documentation needed to support expenses, but also our firm belief that there has been no fraudulent activity. If there had been, I feel confident that our Southern Africa Regional Office would have found it, and in such an instance you as our donors would have been told at once.

I am very relieved indeed to hear that you will be in a position to release the second tranche of the grant in the next few days. Activity levels in country have really ramped up in the recent and next few months. Our mid-term evaluation also took place, as you know, last week. The second tranche is therefore very much needed now.

The revised LF, Activity Plan and budget that you requested has been provided by Montfort and just needs a last check-over by all parties. I hope to be in a position to send this to you in the next two or three days.

With best wishes,

[REDACTED]

From: [REDACTED]
Sent: 17 March 2015 15:30
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access grant

[REDACTED]

Thanks for this information. The over £20,00 that I refer to is the total mentioned in the Audit Report (£3,000 traveling expenses) Observation 1 and the £18,000 (approx) were receipts insufficient documentation (Observation 4). My apologies if that was not clear.

Just to say that thanks for the further information provided I am now in a position to release the 2nd tranche of Grant and will do so in the next day or so.

I hope that this information is of use.

[REDACTED]

From: [REDACTED]
Sent: 17 March 2015 15:09
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access grant
Importance: High

Dear [REDACTED]

Please see responses in red, provided in the text of your email to me below.

Can I suggest we speak by phone or skype asap, but certainly in advance of our meeting next week, to take a further look at the query about “over £20,000 of Project funds”? I am in my Head Office in Cambridge the day after tomorrow Thursday 19/03 and will be discussing these issues with [REDACTED] , CEO of CBM UK, so it would be a good moment, if you can manage to find the time between now and then, to have all your remaining concerns lined up, so that we can address each one.

With best wishes, and in hope of hearing from you very soon,

[REDACTED]

From: [REDACTED]
Sent: 13 March 2015 17:20
To: [REDACTED]
Cc: [REDACTED]
Subject: MW02 Equitable Access grant

Dear [REDACTED]

Greetings from Blantyre with intermittent internet access. I have only just seen your email. Please treat this as a holding reply while I get all the information that you have requested.

So just to start us off, but the balance will follow:

Yes, there was an internal audit of MW02 in May 2014. I haven't seen it and will ask for it. As far as I know there are no others, but I will double-check with my finance colleague in our Regional Office who conducts the audit.

Yes, CBM routinely audits their projects. I will find out for you if the February 2015 audit of Montfort College was because of timetabling or in response to concerns.

A Montfort College team of 4, the Project Officer, Accounts Officer, supervising Manager and in this unusual instance the Principal, met with the CBM Malawi, CBM Regional Office and CBM UK team, in Blantyre, yesterday. They presented to us the responses to our audit and we found it satisfactory. The individuals concerned have been put on probation by the Principal of Montfort College, who has agreed to meet with them once a week from now on, to check on performance, activity and accounting issues, to ensure compliance on both the issues thrown up by the audit and their response, and to performance issues. The probationary period ends at the end of April, and the relevant staff on this project will have their employment terminated at that point if necessary.

The assurance I gave you that there is no fraud remains. No money has been siphoned off this project into private pockets.

Yes, there have indeed been problems with employees wrongly claiming expenses from the project for travel from home to work and all these funds have been recovered from them and credited back to the project. Yes I will acknowledge withholding tax issue as soon as I can.

The issue with the use of the vehicle has also been resolved, and a system for proper record keeping set up. I can get more detail on this aspect and send it to you.

I am forwarding your email and my response to my colleagues in the Regional Office, CBM Malawi and CBM UK, with my request for the urgent assistance in meeting all your information requests in full.

With best wishes,

[REDACTED]

From: [REDACTED]
Sent: 12 March 2015 14:42

To: [REDACTED]
Cc: [REDACTED]
Subject: RE: MW02 Equitable Access grant

Dear [REDACTED]

[REDACTED] is getting ready for his visit to Malawi next week therefore I'm looking at this for him. Thanks for the Audit report. It seems from the report itself that this is not the first such report compiled in relation to this project. I would ask you to provide me with a copy of all Audit reports in relation to this Project. Could I also ask you to confirm what prompted the Project Audit i.e. do CBM routinely audit all their Projects in this manner or was there a specific concern that triggered this one?

CBM does routine audits on our partners. These audits are planned in advance. Our international office requires us to audit 20% of our projects yearly and we at Southern Africa Regional Office do this and over and over and above this 20% we audit our designated funding projects on a yearly basis.

The Audit Report shows that over £20,000 of Project funds have been incorrectly claimed and paid out during 2014. I note that you emphasis that there is no suspicion of fraud here. The Audit Report show that at the least the Project has suffered from serious financial mismanagement, and I'm, to honest, at a loss to see how there can be no suspicion of fraud. Could you explain why the view is that there has been no fraud? Please could you indicate where are you getting this amount from?

In relation to the Audit Report I have a number of specific questions. These are:

Observation 1 - it seems that 2 staff members had been claiming travel expenses, amounting to (£3,000 approx) from home to their place of employment. I assume that the Project would not normally meet the expenses of employees getting to work. Therefore could you tell me how this occurred? Please also confirm what, if any, action (disciplinary or otherwise) was taken. I note that the these funds have to be reimbursed to the Project. Please confirm whether or not these funds have now been reimbursed.

Observation 2 – Please confirm when the withholding tax is either re-allocated or reimbursed back to the project. Montfort met with the Malawi Revenue Authority and the following was communicated and is in process:

WHT is refundable at the end of the assessment. Montfort has to write MRA regarding the issue explaining everything that took place and reason for the refund. Montfort should compile all the copies of WHT and request MRA that they have paid the excess amount of tax and the Authority shall assess and make the

recommendation, whether to refund or be transferable to PAYE, but this shall be upon the discussion from the commissioner General.

Observation 3 – This seems to be an on-going issue. The Project has at various times paid twice for the use of Montfort College’s vehicle (fuel and millage) because proper records have not been kept. It also meets the full cost of the insurance, repairs and licences for the vehicle. However, the loss to the Project caused by these practices have not been quantified. Please quantify the costs to the Project. You should also confirm that these practices have now ceased, and that the Project is now paying for the vehicle only when they use it, and that the Project has been reimbursed with any funds that were overpaid for vehicle use. In order to quantify these costs we need to do a reconciliation of all costs for the vehicle, this can take some time. We have instructed Montfort to cease the practice they have and now are no longer claiming double.

Observation 4 – I am concerned that payments worth approximately £18,000 (EURO 22,772) have been made by the Project without sufficient supporting documentation, and that they were then not recorded properly on the Project’s systems. Please confirm how this happened. This was a low capacity of understanding by the project account with how to record entries within the accounting system to reflect correct budget line items. Internal documents were used to make supporting documents and authorisations of payments but there was need for further elaboration on what is required when it comes to a supporting document for an expenses. Please also confirm what, if any, action (disciplinary or otherwise) was taken in respect of this issue. There was no need for disciplinary action, we did not see this as fraud, this was a lack of capacity and knowledge. Were all the payments actually due, did you require any of the funds to be repaid to the Project by the person claiming them?. Please confirm whether or not these funds have now been reimbursed. Yes when the internal audit was conducted the expenses related to the activities. There was no need for funds to be reimbursed, when re looked at various documents regarding certain activities on the latest audit these were reconciled.

We had agreed to meet to discuss this project further, therefore I shall send out a meeting request for the morning of Tuesday, 24 March 2015.

I look forward to meeting with you to discuss this matter further.

[REDACTED]

[REDACTED] | Malawi Development Programme Manager | International Development Team | The Scottish Government | Floor 3CN | Victoria Quay | Edinburgh | EH6 6QQ | Tel [REDACTED] BlackBerry [REDACTED]

From: [REDACTED]
Sent: 27 February 2015 12:56
To: [REDACTED]
Cc: [REDACTED]
Subject: MW02 Equitable Access grant

Dear [REDACTED]

As agreed at our meeting on 19 Feb 2015, please find attached a copy of the report drawn up by [REDACTED], CBM’s Regional Finance officer, following her internal audit of Scottish Government grant MW02.

I would like to re-emphasise the assurance I gave you at our meeting, that there is no suspicion of fraud. Ongoing close scrutiny has of the accounts and the receipts has revealed some unacceptable practices, which are being dealt with, but not of any attempts to siphon off money. Please rest assured that this level of scrutiny is indeed ongoing. You will see references to Catherine's previous visit in mid-May last year, and there will be future visits.

Please let me know if this report gives rise to any further questions you may have, and I will raise them with her.

With best wishes,

[REDACTED]

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Dh'fhaodadh gum bi teachdaireachd sam bith bho Riaghaltas na h-Alba air a chlàradh neo air a sgrùdadh airson dearbhadh gu bheil an siostam ag obair gu h-èifeachdach neo airson adhbhar laghail eile. Dh'fhaodadh nach eil beachdan anns a' phost-d seo co-ionann ri beachdan Riaghaltas na h-Alba.

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MW02 - Equitable access to education for children with disabilities in Malawi
Summary report on initial internal audit findings
15th April 2016

1. Introduction

The “Equitable access to education for children with disabilities in Malawi” project has been implemented by CBM UK in partnership with Montfort College from 1st August 2013 to 31st March 2016. The initial funding agreement was for £ 395,192, which was revised to £267,693 on agreement between CBM UK and the Scottish Government.

2. Chronology

In October 2015 inconsistencies were identified by the Head of Finance at the CBM Regional Office between Montfort College accounts and reported expenditure to the Scottish Government in previous annual reports. These inconsistencies were identified as a result of the introduction of increased rigour in financial monitoring practices. In February 2016 the Scottish Government was subsequently informed of the discovery of these inconsistencies and secondly, that CBM UK planned to conduct an internal audit. The objective of this audit was to identify the source of these inconsistencies and allow for accounts to be restated to the Scottish Government, along with further clarification of mechanisms to strengthen the partner’s financial systems and CBM monitoring and partner management mechanisms.

The internal audit process was undertaken as of February 2016 by a team led by CBM’s Internal Audit unit, specifically the Internal Audit Senior Accountability Officer, and included the Scottish project lead from CBM UK and the Head of Finance from the Regional Office. This acted as a follow up to findings of previous audits undertaken by the Head of Finance at the Regional Office of Montfort College in May 2014 and February 2015, the reports of which were shared with the Scottish Government, which raised concerns relating to financial systems, notably documentation. CBM also previously conducted Organisational Capacity Assessments, most recently in October 2015, which directly link to the management at Montfort College and issues related to financial compliance and governance.

The internal audit exercise which began with an on-site visit of Montfort College at the end of February 2016 was extended due to the high level of financial documentation for the project and CBM’s intention to verify 100% of expenditure, given previous audit findings. In addition, in line with the findings of previous audits, there were gaps in documentation and the extension allowed these gaps to be identified and assessed. This extension was overseen by the Head of Finance at the Regional Office and ended with a further visit by her to Montfort College as of 4th April.

The results of this exercise will form part of the internal audit report, which is in finalisation. However, the findings from this week of the latest review of the documentation and the visit of the Head of Finance of the Regional Office require to

be noted immediately to the Scottish Government as unfortunately there is a new discovery of suspected fraud.

3. Initial Findings

There are three categories of Montfort College expenditure, which CBM considers to not to meet appropriate standards:

(a) Expenses for which there is insufficient documentation: these were largely identified under previous audit reports and this is not a new finding – with the audit confirming that previous audit reports have not been addressed.

(b) Disallowable costs: those that were made by Montfort College without approval by CBM and were not linked to the project activities.

(c) Advances with no supporting documents: this is **an entirely new finding** identified this week - which is suspected to be fraudulent.

Please see Table 1 below. These findings have an impact on the annual reports for Years 1 and 2, as these expenses have previously been reported to the Scottish Government.

Table 1: Breakdown of initial findings

Ineligible expenditure as of 14 April 2016	Malawi Kwacha	GBP	Comments
Total amount ineligible	24,919,380	26,727	
Breakdown of the above figure			
a) Inadequate supporting documents for expenses	11 868 465	12,830	These are payments for which documentation exists but is insufficient: either consisting only in Montfort College vouchers or insufficient quotations. It is noted that the majority of these expenses were covered by the audit from June 2014 which reported insufficient supporting documents and requested Montfort College to supply adequate supporting documents. To date the request for adequate supporting documents has not been provided and these expenses are now considered by CBM to be ineligible.
b) Disallowable costs	684,219	709	These are costs of assistive devices which have not been linked to the project activities.
c) Advances with no supporting	12,366,696	13,188	These were payments taken as advances by staff (former project

documentation			<p>manager and project accountant) for which documentation was never provided to reconcile expenses with the advance.</p> <p>These costs are considered to be suspected fraud.</p>
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4. Immediate remedial action taken to address findings.

Upon discovery of these findings, Montfort College, has been given until 22nd April 2016 to investigate and respond to these immediate findings, particularly related to the expenses for which no documentation is available, which are under suspicion of fraud. Notably as the former and current employer of the two individuals who are associated to the suspected fraudulent activity, to send official messages to both individuals and request immediate clarification. Which failing, or should this confirm the suspicions of fraud, legal action will then be considered against the individuals for full repayment. Montfort College has demonstrated seriousness in its commitment to address the weaknesses revealed through the internal audit process and to investigate these immediate findings within the time-frame provided

As of the time of the internal audit in-country in February/ March and as a standard practice related to the estimation of partner risk – CBM had already put in place a risk minimisation strategy to safeguard remaining project funds for any remaining costs to be incurred. All project funds were returned to CBM in March and all remaining costs were incurred through CBM's Country Office.

CBM is committed to ensuring the completion of this investigation and taking all required action to address the findings. In addition, CBM will be reviewing its partner monitoring and capacity development practices, to reinforce how CBM supports and reinforce partners across the project cycle, from partner selection and assessment to project phase out.

5. Next steps

A report by CBM's Southern African Regional Director will be provided to the Scottish Government by Friday 29th at the latest. This report will outline in more detail the immediate remedial action taken as well as the medium and longer term findings and recommendations with a clear plan of action.

Secondly, the internal audit report of Montfort College, which is in the process of finalisation, will equally be submitted to the Scottish Government.

SCOTTISH GOVERNMENT INTERNATIONAL DEVELOPMENT FUND

NOTE ON FRAUD CASES: KEY POINTS

Reported fraud cases

6 suspected/investigated fraud cases involving SG funded projects under the IDF over 2013/14 and 2017/18. No Scottish Government funds were lost due to these frauds.

1. Malawi: Waverly Care project (Annex 1):
 - SG notified of allegations of fraud in project January 2013.
 - Waverly Care asked to instruct an independent forensic audit of the project to investigate allegations.
 - Result: auditors reported September 2013: no evidence of the financial mismanagement that had been alleged: concluded no identifiable loss to SG.

2. Pakistan: Oxfam project (Annex 2):
 - SG alerted to financial irregularities by Oxfam Scotland in December 2012 involving the partner organisation of SG funded project in Pakistan. Potentially £11,227.97 misappropriated
 - SG ID Team froze the release of next/outstanding grant payment to Oxfam of £26,435.50.
 - Result: Oxfam's audit still not resolved, but Oxfam committed at the time to cover any losses. Therefore no loss to SG.

3. Tanzania: Oxfam project (Annex 3):
 - SG informed by Oxfam Scotland on Monday 2 February 2015 of an incident of fraud affecting an SG funded Oxfam project in Tanzania.
 - Confirmed to SG ID Team that £6,666.62 has been misappropriated. SG ID Team withheld part of next grant payment for wider concerns of levels of underspend/financial controls. Ongoing work with Oxfam on this into next f/y.
 - Result: Oxfam is currently pursuing a legal case to seek recovery of the funds and will cover the projected loss of £6,666.62. Therefore no loss to SG anticipated.

4. Pakistan: Oxfam project (Annex 4):
 - The incident took place during the final quarter of the Scottish Government project, between January and March 2016. The fraud resulted in total loss of £1,013.
 - The fraud occurred as a result of two finance staff at the partner organisation, BEEJ, altering and exaggerating utility bills. These two staff had been longstanding members of the organisation but were about to end their term.
 - Partner financial reviews and the audit report did not indicate any suspicion of fraudulent activity prior to this incident.
 - Result: Oxfam stopped working with BEEJ in March 2016 following a decision to de-prioritise the project area Baluchistan as part of Oxfam's Pakistan Country Strategy and therefore was not included in the project extension.

5. Malawi: Christian Blind Mission (Annex 5):

- In October 2015 inconsistencies were identified by the Head of Finance at the CBM Regional Office between Montfort College accounts and reported expenditure.
- In February 2016 the Scottish Government was subsequently informed of the discovery of these inconsistencies and secondly, that CBM UK planned to conduct an internal audit in relation to £26,727 of ineligible payments discovered by the internal audit.
- SG stopped further payments.
- The audit discovered instances of expenses for which there was insufficient documentation.
- Montfort College demonstrated seriousness in its commitment to address the weaknesses revealed through the internal audit process and to investigate these immediate findings within the time-frame provided.
- Results: Two members of staff were disciplined for making fraudulent expenses claims. One was dismissed and the other given a written warning. The fraudulent expense will be reclaimed.

ID Audit recommendations: follow up

Please see Annex 6.

Key points on ID work, fraud cases & audit:

- In each of the above 6 suspected/reported fraud cases: ID Team worked closely with Audit, Finance and DFID fraud team to take advice on best practice handling: each case investigated and reported to Minister, and monies withheld where appropriate. Ultimately, no financial loss to SG to date.
- Internal strengthening work: ID team has worked very closely with the audit team over the last year – continuing a programme of implementing their recommendations from their report last year.
- Internal strengthening work: ID Team also regularly seek advice/clearance from Finance and SGLD on ID grant work.
- Internal strengthening work: ID Team assisting others in SG: ID Team invited by Finance to join an SG wide working group on improving grants: using ID Team as an example of policy area making great strides for improvement and consistency in grants management.
- External strengthening work: ID Team has put in huge amount of work over last few years with our grant holders and umbrella organisations to improve Monitoring + Evaluation / reporting to the SG: thus continuing a programme of implementing Audit recommendations and ID Team’s own M&E best practice report (2014):
 - End Year Reports for all projects were outsourced in May 2014 to IOD Parc, professional independent assessors: to give benchmark for future; and training on assessing EYRs provided to ID Team as part of the contract.
 - Malawi Funding Round 2015-18: new grant conditions inserted to make clearer to projects (plain English) reporting requirements, to SG and to Government of Malawi; and new grant conditions identified under Audit now inserted regarding spot audits and expenditure source checks. These new conditions are now new “style”.
 - Malawi Funding Round 2015-18: new reporting templates designed in conjunction with IOD Parc – designed for new Malawi projects, but rolled out to other ID projects in South Asia programme too. Has brought greater clarity as to reporting requirements.
 - all day mandatory training sessions run by ID Team in July 2014 on public accountability for grant holder organisations. Grant holders informed of new grant conditions, reporting templates, reporting points.

- strict new written guidance to all grant holders, approved by Finance / Audit /SGLD issued by Head of ID Team in November 2014 specifically on financial management;
- new tightened processes on underspends/financial reporting came into effect in January, with new reporting point;
- training/influencing work done by ID Team with ID umbrella organisations such as NIDOS and Scotland Malawi Partnership, to ensure “buy in” that good M&E by their members is vital: reinforcing the issues we see in individual projects, gaining their support and acceptance of grant management issues, having them provide further training/support on good M&E to their members.
- twice a week “grant moderation” ID Team sessions introduced, to ensure consistency of approach across all grant work on grant management decisions, and discuss any issues – team training/capacity building;
- SG funded projects in India, Pakistan and Malawi visited by ID Team members during February-March 2015, as part of M&E work, but also picking up Audit recommendation for team members to increase their country knowledge. Discussions undertaken in Malawi by ID Team leader with Norwegian Embassy, to share audits on joint/similar projects as pilot.
- Ultimately, however, it must be accepted that ID is an inherently risky area of government work which other areas of SG grant activity do not have to contend with:
 - SG ID priority countries are by their nature poor developing countries: some like Pakistan are very fragile with security situations affecting projects; others like Malawi have had recent scandals around “cashgate” frauds in government systems, following which international donors have stopped providing direct support to the Malawian Government at this time.
 - part of the challenge – and content – of ID work is to build strong civil society in developing countries, to challenge, and provide support to build good governance projects, ie part of ID work itself to build anti-fraud processes in developing countries. Good governance is ultimately key to development.
 - it must therefore be accepted that, no matter how strong our M&E processes, some level of fraud will always happen in ID, whether at government level or in projects: DFID and other international donors similarly have a zero tolerance approach to fraud, but at the same time refer to monies lost as “leakage”.
 - with an increased focus on M&E by the team over the last 2 years, this means that the SG ID Team is increasingly good at grant management: picking up more unusual activity as it happens, and are more in control of how budgets are spent – eg, enforcing requests for alternative uses for

underspends in projects, and clawing back in true underspends and currency gains where appropriate.

- ID is fortunate in that there is strong cross-party support in Parliament, with MSPs themselves having visited countries like Malawi on numerous occasions; indeed the Scottish Parliament has been involved in some capacity building with the Malawian Parliament. There is therefore a good level of understanding about the difficulties in working there.
- ultimately, whilst any level of fraud is unacceptable, we need to put the levels of potential loss to date into context. To date, as above, SG also has no sustained losses from any of the suspected/reported frauds.

Annex 1

MALAWI DEVELOPMENT PROGRAMME: MALAWI (2013)

WAVERLEY CARE FUNDING OF THE EKWENDENI HOSPITAL AIDS PROGRAMME (EHAP) – MISUSE OF GRANT REPORT

Key points

- SG were first notified of allegations of a fraud at Ekwendeni Hospital, Malawi, where SG funded a project via Waverley Care, in January 2013.
- SG ID Team took advice from Internal Audit, and from DFID anti-fraud team, to establish best practice on how to handle this alleged fraud and any future frauds.
- SG ID Team also contacted other known donors to the project, advising of the allegations and asking that they share any concerns and/or audit reports. Head of SG ID Team also visited the project in Malawi in July 2013, where counter claims were made.
- Waverly Care required by SG to instruct an independent forensic audit of the project to clear up the allegations.
- Auditors reported their findings back in September 2013: overall the **forensic audit found no evidence for the financial mismanagement that had been alleged. Therefore no loss to SG.**
- Given the terms of the forensic audit report no further action was thought necessary. The Project ended in 2013.

Background

At Ekwendeni hospital, which hosts a HIV resource centre where young people are tested and counselled, there were allegations of misuse of SG Grant funds.

Head of SG ID Team visited the project on 29 July 2013 to discuss the concerns raised, and the forensic audit instructed by Waverley Care.

The allegations of misuse of funds were strenuously denied, and Project made clear they had completed all planned activities. Counter claims were made: regarding impartiality/motives of the consultant who had made the original allegations; and around aggrieved ex members of staff who had been sacked for theft, and then threatened retribution against the Director.

Scottish Government Actions

The Scottish Government requested that Waverly Care, the Grant holder, instruct an independent forensic audit of the Project. Waverly Care instructed BDO to carry out the forensic audit and report back the findings. The Auditors reported their findings back in September 2013

Overall Findings

Overall the forensic audit found no evidence for the financial mismanagement that had been alleged. It did make recommendations to address possible control weaknesses in future. These were that: a separate bank account be opened for Project funds; Bank reconciliations be regularly reviewed; and that all expenditure that is expected to exceed budget should be pre-authorised.

Latest Position

Given the terms of the independent forensic audit report no further action was deemed necessary. The Project ended in 2013.

Annex 2

SOUTH ASIA DEVELOPMENT PROGRAMME: PAKISTAN (2014)

Key points

- SG were alerted by Oxfam Scotland in December 2012 to financial irregularities involving the partner organisation of a Scottish Government funded Oxfam project in Pakistan. This project has now ended.
- £102,146 was disbursed to the partner in question over 2010-13. Of the sums spent (£96,933.12): Oxfam are confident that approx £59,873.23 had been spent properly; the remainder (approx £37,059.89) is still under audit.
- SG ID Team sought advice from SG Internal Audit at the time, and froze the release of the outstanding payment of £26,435.50.
- Oxfam have intimated they consider £11,227.97 might have been misappropriated (if any).
- To date, Oxfam's audit still not resolved, but Oxfam committed at the time to cover any losses. Therefore **no loss to SG**.
- Oxfam's project management and budgetary processes overall across their range of SG funded projects are being tightly managed, until SG ID Team are satisfied overall that Oxfam Scotland has better controls in place. Minister aware of this, and supportive.

Background

SG ID Team were alerted in December 2012 to financial irregularities involving the partner organisation of a SG funded Oxfam project in Pakistan, which was due to receive its final payment by the end of the 2012-13 financial year. Following a financial reconciliation of the partner's accounts by Oxfam they suspected that there may have been misappropriation of funds, which led them to discontinue their partnership and begin a detailed audit investigation.

Scottish Government Actions

SG ID Team froze the release of the outstanding payment of £26,435.50 and following advice from Internal Audit sought further detail and assurance from Oxfam on the impact of the potential fraud on SG funds, which they were unable to provide at that time.

On the advice of Internal Audit SG ID Team notified Oxfam that would be unable to release the final payment until the outcome of their investigation was known. Oxfam indicated that due to the partner organisations unwillingness to cooperate with the audit, it would not be completed until at least the end of April 2013. In addition to Internal Audit's input, [REDACTED], the SG's Counter Fraud Coordinator, was also kept informed.

Latest Position

Oxfam have advised that over the course of the 3 year project £102,146 was disbursed to the partner in question. Out of a total amount of £96,933.12 spent by the partner they are confident that approximately £59,873.23 had been spent properly, which was directly related to the project activities.

The rest of the amount (approximately £37,059.89) is still under audit (HR and communications costs). At the moment, Oxfam say, with limitations, that, of this amount, only 30 per cent (£11,227.97) might have been misappropriated (if any). However, since the investigative audit is now subject to legal action - this information is based on the Oxfam Pakistan team's own preliminary review. Oxfam continue to pursue access to the financial accounts of the partner in question through the courts. In September 2013 they informed SG ID Team that they had submitted a petition for reference for arbitration in the High Court, Islamabad.

Result: Oxfam's audit still not resolved, but Oxfam committed to cover any losses. Therefore no loss to SG.

In February 2014 SG ID Team contacted Oxfam to ask for an update on progress and was advised that the case was "on-going" and they had no further information to share, however Oxfam stressed that ultimately all of the project's activities were completed within the budget.

Annex 3

3. SUB-SAHARAN PROGRAMME: TANZANIA (2015)

Key points

- SG were first informed by Oxfam Scotland on Monday 2 February 2015 of an incident of fraud affecting a SG funded Oxfam project in Tanzania.
- After requesting further detail, SG ID Team have now had confirmation that a total of £6,666.62 has been misappropriated.
- SG ID Team withheld part of next grant payment for wider concerns of levels of underspend/financial controls. Ongoing work with Oxfam on this into next f/y.
- Result: Oxfam is currently pursuing a legal case to seek recovery of the funds and will cover the projected loss of £6,666.62. Therefore **no loss to SG anticipated.**
- Oxfam's project management and budgetary processes overall across their range of SG funded projects are being tightly managed, until SG ID Team are satisfied overall that Oxfam Scotland has control. Minister aware and supportive.

Background

SG is providing Oxfam with a total of £1,331,773 between 2012 and 2015 to deliver a Food Security project in Tanzania as part of the Sub Saharan Africa Development Programme. The project has been working in partnership with two District Councils in Tanzania and with a total of four partner organisations to enable small holder farmers to increase food production and gain a greater level of income.

One of the partners to receive funding from Oxfam to deliver training was the Lushoto Business and Technology Incubation Centre (LBTIC.) In September 2014, Oxfam Tanzania became concerned about the performance of LBTIC and began a programme and financial review of the organisation and the payments that they had received, suspending further payments to LBTIC during the investigation.

An external forensic audit was subsequently commissioned which examined accounts for the previous 12 months and reported on 7 November, identifying 'ineligible, disputed or unsupported accounts' representing £6666.62 of partner grant funds.

On 6 December 2014, a formal letter terminating the partnership and contract, and requesting full reimbursement of funds was sent from Oxfam Tanzania to LBTIC. **Oxfam is currently pursuing a legal case to seek recovery of the funds and will cover the loss to the project of £6,666.62.** Oxfam Scotland were first informed of this on 26 January and subsequently passed the information onto the SG.

Scottish Government actions

SG ID Team raised concerns with Oxfam about the length of time it took for Oxfam Scotland to be informed of the fraud and requested that they tighten up their monitoring procedures. Oxfam are looking to take immediate actions to improve communications between Oxfam Scotland and Oxfam Tanzania

Oxfam are satisfied that in this case their Theft and Fraud response guidelines were followed with due diligence and have taken steps to prevent further negative impact to the project. They are confident that whilst fraud exists in every sector and can occur at any level of an organisation, the policies procedures and financial reporting standards they have in place would reveal any issues as early as possible to allow losses to be recovered where possible and minimise impact on project beneficiaries.

SG ID Team have met up with Oxfam and spoke directly with their country Director to enforce the point that they should have informed Oxfam Scotland earlier about the fraud.

In addition:

- the project is due to come to an end on 31 March 2015 but SG ID Team have withheld £90K from the project over concerns about the level of underspend, which is partly related to the impact of the fraud, but also due to the nature of the project where there have been delays in securing match funding from Tanzanian District Councils.
- Oxfam Scotland have assured SG ID Team that they will be able to complete their activities despite the loss of the partner organisation.
- a copy of the audit report has been requested and, whilst Oxfam Scotland have advised that they were unable to share it as it had confidential information in it, this has been again requested (with redacted information if necessary) with their End Year Report
- Oxfam's project management and budgetary processes overall across their range of SG funded projects are being tightly managed, until SG ID Team are satisfied overall that Oxfam Scotland has good control. This includes the extension for 2015-16 on this particular project.

Annex 4

SOUTH ASIA DEVELOPMENT PROGRAMME: PAKISTAN (2016): Oxfam Scotland - Fraudulent Use of Scottish Government Funds

Project PIB4 was implemented by Oxfam in Pakistan in partnership with three local civil society organisations from 2013-2016. The End of Year 3 report was submitted to the Scottish Government on time at the end of the project and an audit covering the full project was conducted. The audit report raised a number of inconsistencies in project financial management including a case of fraud by one of Oxfam in Pakistan's field partners, the 'Baluchistan Environmental and Education Journey' (BEEJ). The case of fraud was immediately investigated by Oxfam and action taken to recover the funds. This report provides an account of what happened and how the incident was managed and resolved.

The Incident

Upon investigation, Oxfam in Pakistan were able to confirm the following:

- The incident took place during the final quarter of the Scottish Government project, between January and March 2016.
- The fraud occurred as a result of two finance staff at the partner organisation, BEEJ, altering and exaggerating utility bills.
- These two staff had been longstanding members of the organisation but were about to end their term.
- The fraud resulted in total loss of £1,013.
- Partner financial reviews and the audit report did not indicate any suspicion of fraudulent activity prior to this incident.
- The partner does not hold any Oxfam assets/ assets gained through the Scottish Government project.
- Oxfam had stopped working with BEEJ in March 2016 following a decision to de-prioritise the project area Baluchistan as part of Oxfam's Pakistan Country Strategy and therefore was not included in the project extension.

Action Taken

- Oxfam in Pakistan held a senior staff meeting to identify actions, assign roles and responsibilities and assess risk, attended by the Country Director, Assistant Country Director, Programme Manager- Food Security and Business Support Manager.
- Oxfam in Pakistan sought the advice of Oxfam's Fraud & Corruption Team based in Oxford who supported them throughout the investigation and follow up.
- The Oxfam Scotland team was notified who in turn notified the Scottish Government.
- The Country Director issued a letter to BEEJ informing them of the matter and asking them to conduct their own internal investigation.
- The Programme Manager and Business Support Manager visited the partner organisation in Quetta, Baluchistan on 15 June 2016 to issue the letter in person.
- The partner investigated the incident and submitted an update to Oxfam in Pakistan.
- Oxfam Scotland met with of the Scottish [REDACTED] Government on 19 July 2016 to provide a detailed update on the situation.

- The partner organisation was asked to resubmit their financial report and Oxfam in Pakistan adjusted their overall financial report accordingly.
- Oxfam in Pakistan's senior leadership met in late July to review the incident and capture learning.

Result

- The two staff members were dismissed with immediate effect.
- The £1,013 has been recovered and there has been no financial impact on the project. Overall expenditure has not been affected.
- The project results and plans going forward were not affected by this incident.

Learning

- Due to the partner's remote location, Oxfam in Pakistan did not scrutinise BEEJ's finances as closely as it did with other partners. Fortunately the end of project audit did pick up the misconduct.
- Going forward, Oxfam in Pakistan will ensure that quarterly reviews are conducted in person to ensure proper oversight, regardless of logistical challenges.
- Oxfam in Pakistan is developing a process which annually assesses all their partners to ensure they meet the minimum standards and criteria set including around financial management and oversight.

Oxfam felt that the fact that an incident of fraud by a partner organisation was uncovered is testament to the rigorous financial scrutiny by Oxfam in Pakistan. Furthermore, the action taken upon discovering the fraud was prompt, transparent and effective in avoiding any financial loss or other impact on the project.

Annex 5

MALAWI DEVELOPMENT PROGRAMME: PAKISTAN (2016): Christian Blind Mission - Fraudulent Use of Scottish Government Funds

The “Equitable access to education for children with disabilities in Malawi” project was implemented by CBM UK in partnership with Montfort College from 1st August 2013 to 31st March 2016. The initial funding agreement was for £ 395,192, which was revised to £267,693 on agreement between CBM UK and the Scottish Government after the incident of fraud was reported.

Chronology

In October 2015 inconsistencies were identified by the Head of Finance at the CBM Regional Office between Montfort College accounts and reported expenditure to the Scottish Government in previous annual reports. These inconsistencies were identified as a result of the introduction of increased rigour in financial monitoring practices. In February 2016 the Scottish Government was subsequently informed of the discovery of these inconsistencies and secondly, that CBM UK planned to conduct an internal audit. The objective of this audit was to identify the source of these inconsistencies and allow for accounts to be restated to the Scottish Government, along with further clarification of mechanisms to strengthen the partner’s financial systems and CBM monitoring and partner management mechanisms.

The internal audit process was undertaken as of February 2016 by a team led by CBM’s Internal Audit unit, specifically the Internal Audit Senior Accountability Officer, and included the Scottish project lead from CBM UK and the Head of Finance from the Regional Office. This acted as a follow up to findings of previous audits undertaken by the Head of Finance at the Regional Office of Montfort College in May 2014 and February 2015, the reports of which were shared with the Scottish Government, which raised concerns relating to financial systems, notably documentation. CBM also previously conducted Organisational Capacity Assessments, most recently in October 2015, which directly link to the management at Montfort College and issues related to financial compliance and governance.

The internal audit exercise which began with an on-site visit of Montfort College at the end of February 2016 was extended due to the high level of financial documentation for the project and CBM’s intention to verify 100% of expenditure, given previous audit findings. In addition, in line with the findings of previous audits, there were gaps in documentation and the extension allowed these gaps to be identified and assessed. This extension was overseen by the Head of Finance at the Regional Office and ended with a further visit by her to Montfort College as of 4th April.

Initial Findings

There are three categories of Montfort College expenditure, which CBM considers to not to meet appropriate standards:

- (a) Expenses for which there was insufficient documentation: these were largely identified under previous audit reports and this is not a new finding – with the audit confirming that previous audit reports have not been addressed.
- (b) Disallowable costs: those that were made by Montfort College without approval by CBM and were not linked to the project activities.
- (c) Advances with no supporting documents which was fraudulent (a new finding).

Immediate remedial action taken to address findings

Upon discovery of these findings, Montfort College, was given until 22nd April 2016 to investigate and respond to these immediate findings, particularly related to the expenses for which no documentation is available, which are under suspicion of fraud. Notably as the former and current employer of the two individuals who are associated to the suspected fraudulent activity, they were required to send official messages to both individuals and request immediate clarification. On confirmation of the suspicions of fraud, legal action was considered against the individuals for full repayment. Montfort College demonstrated seriousness in its commitment to address the weaknesses revealed through the internal audit process and to investigate these immediate findings within the time-frame provided

As of the time of the internal audit in-country in February/ March and as a standard practice related to the estimation of partner risk – CBM put in place a risk minimisation strategy to safeguard remaining project funds for any remaining costs to be incurred. All project funds were returned to CBM in March and all remaining costs were incurred through CBM's Country Office.

Two members of staff were disciplined for making fraudulent expenses claims. One was dismissed and the other given a written warning. The fraudulent expense will be reclaimed.

The Scottish Government made no further payment to CBM after the incident was reported.

Annex 6

ID Team Audit April 2014: recommendations and follow up work

RECOMMENDATION 1: Governance Arrangements: Annual Plan

The Team should develop an Annual Plan of objectives and targets.

Priority and Reason for Recommendations

Low: To ensure that all objectives are documented and help maintain focus throughout the year.

Management Response - Agreed:

Content with this recommendation and will take it forward. At present, the forward looking Team Plan is contained on a white board within the team setting, and provides for 6 months at a time. Agree would be better if this was captured in a more formal way: will look to put in place an Annual Plan, which we'll update on 6 monthly cycles).

Action Officer: [REDACTED]

Action Due Date: 31 October 2014

April 2015 update: ID Team annual plan in place.

RECOMMENDATION 2: Governance arrangements: Risk Assessments to Ministers

A formal risk assessment relating to proposed funding rounds should be undertaken and included within the Ministerial submission seeking formal approval to issue grants

Priority and Reason for Recommendations

Medium: To ensure that potential risks are identified, evaluated and managed effectively and that Ministers are provided with comprehensive range of information relating to proposed project funding and they can make fully informed decisions.

Management Response - Agreed:

Content with this recommendation. We will include a risk assessments in our submissions to the Minister when putting up projects recommended for funding. Our next funding round is for Malawi 2015-18, with recommendations to the Minister on projects for funding around January 2014.

Action Officer: [REDACTED]

Action Due Date: 31 January 2015 (as part of next funding round)

April 2015 update: This had been intended, but due to Malawian Govt Ministerial visit to Scotland end November, the space for this instead had to be allocated to allowing Govt of Malawi input into the decision making process. Key partnership issue. Formal risk assessments will be incorporated as a key part of next funding round, with more time to design, prepare and implement this into the Funding Round timetable from the start. Last year's audit was too close to the opening of the Malawi 2015 round.

RECOMMENDATION 3:Governance arrangements: Team knowledge of Countries

The Team should seek to build upon their knowledge of countries being funded, their projects and issues that they may face delivering objectives.

Priority and Reason for Recommendations

Low: To ensure that the Team have a rounded and informed knowledge of the issues faced by developing countries and the charitable organisation community which will allow them to carry out their duties more effectively and identify funding round level risks.

Management Response - Agreed:

Content to agree this. We are already working to ensure that the team has both a good knowledge of up to date international development theory and practice, as well as a good knowledge and understanding of our 7 international development priority countries. In the last year, 4 members of the team visited Malawi/Zambia and we will look ahead at further visits, in particular to India and Pakistan, over the next 12 months, to visit projects and increase contacts. We also meet regularly with both Scottish based project leads as well as their in country partners when they are visiting Scotland, and we will look to continue this.

Action Officer: [REDACTED]

Action Due Date: 31 July 2015

April 2015 update: With the CWG and Referendum over, visits to our ID priority countries by staff members were planned for 2015. B3 lead on South Asia programme visited India in February 2015; B2 policy officer on South Asia programme visited Pakistan in February 2015; ID Team leader with B2 Malawi policy officer visited Malawi in March 2015, as "joint mission" with DFID. SE4All/Climate Justice B3 lead will visit Malawi in June 2015. These visits are both part of M&E work, visiting projects and testing relationships/budget issues; as well as improving

country knowledge. Team members also continue with personal study on their priority countries, and to meet regularly with project leads.

RECOMMENDATION 4: Stakeholder Engagement

The Team should seek to build up their stakeholder engagement e.g. NGOs, Office Scottish Charities Regulator, Charities Commission, DFID, Foreign and Commonwealth Office, University specialist academia etc and also through regular evidenced communication with all grantees.

Priority and Reason for Recommendations

Low: To ensure that the Team have a rounded and informed knowledge of the issues faced by developing countries and the charitable organisation community and that Project Managers engage regularly with grantees.

Management Response - Agreed:

Content with this recommendation: following informal discussion with the Audit team in their initial feedback to the team, we have already taken forward their helpful suggestion on involving OSCR and will be meeting with them soon. We are also taking forward independently more involvement with academia, having involved them in recent cross sector roundtable discussions with the Minister on ID matters, and also giving them a key role in relation to the newly set up Scottish Working Group on MDGs. We are also working in partnership (sharing our Phd intern) with Scottish Universities to map ID work across Scotland, thereafter to track Scottish academic expertise on ID and use this within our work – academics delighted with this new joined up approach. We will continue to do more and look to build up other stakeholder networks as recommended however. We will also ensure that we evidence better (fix our erdm filing system) our fairly regular communications to all grantees.

Action Officer: [REDACTED]

Action Due Date: 31 December 2014

April 2015 update: As above, stakeholder engagement is an area where the ID Team has been very strong over the last few years. In addition to the ongoing work with NGOs, academia, DFID, private sector etc (which was ongoing at the time of the audit and narrated above): ID Team has since the audit: met with FCO; taken part in a “joint mission” to Malawi with DFID; and, contact was made with OSCR with intention to meet asap.

The Team has also organised numerous ID stakeholder events on grant management, constitutional work, Smith Commission proposals (both Ministerial events and officials only); organised roundtable visit events for the Minister in Brussels (June) and Geneva (November), reaching out to the EU, European ID actors, and the UN. Internally too, ID has reached out to internal SG stakeholders, with internal stakeholder events, led by Minister, aimed at Directors and DDs to: raise awareness of SG ID work; and start to roll out policy coherence for development work across SG.

Team has also completed: our internal mapping work on SG ID work; and our mapping work across Scottish universities involved in ID. Team will continue to work on this important area now that 2014, with its heavy workload around Referendum, Commonwealth Games and Malawi Funding Round is over.

Team continues to work with the cross-sectoral Scottish Post 2015 Working Group which we set up last year, and this will become key from September onwards when the new Post 2015 Framework comes into shape.

RECOMMENDATION 5: Grant Funding & Management

The Team should ensure that:

- a) bespoke legislation is continued to be developed;
- b) due diligence checks are mandatorily carried out against each grant applicant;
- c) Grant Offer letters should be re-issued annually;
- d) Core funding arrangements should follow the procedures set out in the SPFM;
- e) Claims should be subject to random source expenditure checks;
- f) effective monitoring and evaluation of yearly and whole life cycle of projects should be undertaken and reported to senior management and ministers.

Priority and Reason for Recommendations

Medium: To ensure the effective administration of grant funding and compliance with SPFM guidance.

Management Response – Agreed:

Some helpful recommendations here which we will take forward.

- a) will be taken forward post Sept, once we know what powers we then need
- b) noted and agreed for next funding round – Malawi in January 2015;
- c) noted and agreed to be implemented next financial year – we will notify grant holders of upcoming change at our July Information Day on Grant Management
- d) Noted and will be implemented next financial year;
- e) Noted and will be implemented over next 12 months;
- f) noted and will be implemented from end of next of the funding rounds.

Action Officer: [REDACTED]

Action Due Date: Over next 12-24 months. Obtain update at 31 July 2015

April 2015 update: ID team has put in train over last year huge amount of work on grant funding & management (see cover note).

Bespoke legislation could not be considered until after the referendum; we will now carry out this work and await a suitable legislative vehicle.

We will work on due diligence requirements over the next 12 months. This would be best approached from design of the funding round as a whole, to ensure that right from application stage information is captured. We will be entering into review of our ID Policy and processes will be considered as part of this.

Grant offers will, from Malawi 2015-18 funding round onwards, be issued annually.

We have committed (and notified our core funded bodies) that core funding arrangements will in future follow the procedures set out in SPFM (all 3 bodies are mid cycle at present).

We have inserted conditions into the new Malawi 2015-18 grant letters notifying that we will carry out spot audits, and random source expenditure checks – we are also looking to pilot with Norwegian Embassy in Malawi a joint audit on a project.

We will look to compile end project reports at end of this current funding cycle.

RECOMMENDATION 6: Budgets & Financial Monitoring

The Team should:

- a) develop a way to formally record committed and actual expenditure regarding non project specific payments i.e. core grants;
- b) review the current practice of issuing all grant payments in advance;
- c) ensure that any project level reported under/overspends are scrutinised and appropriately dealt with in conjunction with Finance colleagues, where necessary clawing back funds or amended the profiled payments within the current financial year only;
- d) ensure that where any profile amendments are necessary beyond the current financial year or they materially impact on the total award for this or future years then revised formal grant offer letters should be issued.

Priority and Reason for Recommendations

Medium: To ensure that all payments are effectively issued and monitored and that under/over spends are identified and treated appropriately in line with SPFM guidance and that Finance colleagues are consulted.

Management Response – Agreed:

Noted and agreed: also issues that have concerned us over the last year, that we are actively working on, and good to have Finance advice/backing on this

Action Officer: [REDACTED]

Action Due Date: 31 July 2015

April 2015 update: ID team has put in train over last year huge amount of work on budgets and financial monitoring (see cover note).

In particular, on financial reporting and underspends/currency gains: grant management seminars with all grant holders was undertaken July last year, with a follow up of written guidance on financial management issued November.

New financial reporting points have been inserted for all projects in January each year, in addition to the normal April and October reporting on project management and budgetary position.

Underspends were clawed back in as appropriate in January, though then required to be used for flood damage alleviation in Malawi.

We are confident that our work in this area has tightened processes considerably, and ensured better awareness of public accountability for ID monies amongst grant holders.

Annexes

Annex 1 – List of expenses for which there is insufficient documentation

Effective date		Expense	Amount
14/02/2014	005	Sage Accounting Package	450,000.00
17/02/2014	009	Meal allowance	3,990.00
17/02/2014	008	Accommodation	15,000.00
25/02/2014	010	Transport cost	20,975.00
25/02/2014	016	Fuel	12,585.00
25/02/2014	020	Miscellaneous expenses	36,180.00
27/02/2014	021	Base line	200,000.00
27/02/2014	023	Base line 2.1	150,000.00
27/02/2014	026	Training SNE teachers	140,000.00
27/02/2014	028	Training SNE teachers	140,000.00
27/02/2014	030	Baseline Output 2.1	150,000.00
27/02/2014	022	Baseline Output 2.1	200,000.00
27/02/2014	027	Allowance SNE teachers	46,000.00
25/02/2014	013	Allowance for [REDACTED] Jan and Feb 2014	144,000.00
12/03/2014	036	Local Transport	45,000.00
12/03/2014	037	Training SNE teachers - Output 2.2	20,000.00
12/03/2014	038	Expenses, meals and accommodation	40,000.00
12/03/2014	040	Meals and accomodation [REDACTED]	40,000.00
12/03/2014	041	Training SNE teachers - Output 2.3	20,000.00
12/03/2014	042	Output 2.3 [REDACTED]	20,000.00
17/03/2014	043	Fuel	58,730.00
17/03/2014	045	Jan and Feb 2014 Travel costs	221,496.00
18/03/2014	046	Assorted capital expenditures	194,410.00
18/03/2014	047	Stationery	13,505.00
19/03/2014	051	Monitoring output 2.2	60,000.00
19/03/2014	052	Monitoring output 2,2	80,000.00

19/03/2014	054	Monitoring output 2.2	100,000.00
19/03/2014	055	Monitoring - Output 2.2	100,000.00
20/03/2014	060	Fuel refun [REDACTED]	70,000.00
28/03/2014	066	Electricity bill	50,000.00
28/03/2014	068	Funds borrowed for cheque book	20,000.00
28/03/2014	070	Telephone Expenses	46,000.00
31/03/2014	073	Stationery	18,510.13
31/03/2014	073	Lunch allowance [REDACTED]	4,000.00
31/03/2014	073	Airtime Telephone	14,000.00
31/03/2014	073	Water	3,750.00
31/03/2014	073	Fuel	25,000.00
31/03/2014	073	Labour Output 3.1	8,000.00
31/03/2014	073	Supplies	1,500.00
31/03/2014	074	Monitoring Implementation Output 2.2	35,000.00
31/03/2014	075	Monitoring - Output 2.2	35,000.00
31/03/2014	076	Fuel refund	50,340.00
31/03/2014	077	Fuel refund	60,408.00
19/03/2014	057	Airtime Telephone	146,000.00
19/03/2014	057	Airtime Internet	29,000.00
09/04/2014	078	Transport reimbursement - Output 3.1	82,300.00
09/04/2014	079	Transport reimbursement - Output 3.1	57,040.00
09/04/2014	081	Allowances - Output 3.1	18,000.00
09/04/2014	084	Travel expenses - Output 3.1	200,000.00
09/04/2014	085	Allowances - Output 3.1	463,000.00
09/04/2014	086	Travel expenses - Output 3.1	120,000.00
09/04/2014	087	Travel expenses - Output 3.1	120,000.00
09/04/2014	088	Travel expenses - Output 3.1	280,000.00
09/04/2014	089	Travel expenses - Output 3.1	420,000.00
09/04/2014	090	Travel expenses - Output 3.1	360,000.00
17/04/2014	097	Tonner	79,539.00

17/04/2014	097	Stationary - Output 3.1	14,562.50
09/04/2014	080	Transport - Output 3.1	32,800.00
09/04/2014	080	Output 3.1 no receipts	119,996.89
02/05/2014	098	Training school management expenses	120,000.00
02/05/2014	099	Travel expenses	200,000.00
02/05/2014	101	Training school management expenses	109,070.00
05/05/2014	102	Allowances - Output 3.1	42,000.00
02/05/2014	109	Fuel Claim	26,848.00
02/05/2014	110	Telephone June 2014	46,000.00
02/05/2014	110	Internet	29,000.00
05/05/2014	111	Fuel Claim	26,848.00
16/05/2014	113	Electricity for April 2014	50,000.00
22/05/2014	119	Internet	29,000.00
23/05/2014	121	Vehicle hire	50,000.00
21/05/2014	122	Vehicle hire	133,401.00
26/05/2014	123	Fuel Claim	157,392.00
27/05/2014	127	Transport	46,200.00
19/03/2014	056	Fuel Claim	43,000.00
04/06/2014	136	Stationery	256,940.75
05/06/2014	138	Fuel Output 3.2	75,000.00
23/06/2014	148	Travel Claims	109,909.00
04/09/2014	190	Airtime	30,000.00
30/09/2014	192	Purchase of hard drive and Anti virus	168,342.50
12/11/2014	216	Airtime - Internet	26,000.00
12/11/2014	216	Lunch allowance for interview	6,000.00
12/11/2014	216	Supplies - refreshments	3,800.00
15/12/2014	228	Airtime - Internet	6,000.00
15/12/2014	234	Spares - No receipts	4,300.00
12/01/2015	249	Stationery	319,151.75
27/01/2015	259	Allowance [REDACTED] symposium	40,000.00

10/03/2015	289	Mid year review	50,000.00
24/03/2015	300	Stationery Output 1.1	321,301.94
29/04/2015	314	Stationery Output 3.1	583,063.50
08/05/2015	315	Airtime Telephone	40,000.00
15/05/2015	328	Training of CRV	1,200,000.00
06/06/2015	341	Stationery	165,779.50
09/06/2015	344	Office cost	2,000.00
09/06/2015	344	Transport local	6,000.00
09/06/2015	344	Supplies	3,000.00
13/07/2015	361	Studio Software	1,637,500.00
			11,868,465

Annex 2 – List of advances taken with no supporting documentation

Staff member	Date withdrawn from bank	Cheque number	Amount
██████████	07/05/2014	112	50,000.00
██████████	11/07/2014	159	118,809.68
██████████	15/07/2014	163	350,240.08
██████████	29/07/2014	169	100,000.00
██████████	28/01/2015	260	231,465.60
██████████	28/01/2015	261	225,309.60
██████████	12/05/2015	323	600,000.00
██████████	12/05/2015	324	670,950.00
██████████	10/05/2015	317	469,000.00
██████████	12/05/2015	321	420,000.00
██████████	12/05/2015	317	397,000.00
██████████	15/05/2015	326	416,950.00
██████████	05/06/2015	340	596,247.00
██████████	06/06/2015	348	2,160,000.00
██████████	06/06/2015	349	590,000.00
██████████	06/06/2015	350	857,500.00
██████████	09/06/2015	347	1,720,000.00
██████████	09/06/2015	343	369,000.00
██████████	25/06/2015	355	46,000.00
██████████	29/07/2015	373	401,950.00
██████████	11/09/2015	386	596,247.00
██████████	26/09/2015	391	190,000.00
██████████	26/09/2015	392	240,000.00
██████████	24/10/2015	410	260,000.00
██████████	24/10/2015	411	290,000.00
			12,366,696

PROJECT AUDIT REPORT

Country:	Malawi	Project No.:	P2951
Project:	Scottish Government Grant	Project since:	2014
Partner:	Montfort College	Last visit:	August 2013

Date of visit: 26 May 2014

By: [REDACTED]

Report written and full audit performed by: [REDACTED]

SCOPE

The scope of the audit includes:

- Cash handling
- Finance Policies and procedures
- Audit of general ledger
- Audit of Supporting Documents

OBJECTIVES AND RESULTS

The audit evaluated the adequacy of controls and processes related to the above scope.

OBSERVATIONS AND ACTION PLAN

Following is tables detailing all the observations from the audit along with space for the management of Montfort College to state their action plan to address these issues and dates by when these issues need to be cleared up.

ATTACHEMENTS SUPPORTING THIS REPORT

- Allowance per diem Receipt template
- GL2014
- Car Depreciation Voucher
- Vehicle Log book

Observation #1

Staff Salaries

Risk Ranking

High

a) Monthly Travel Allowances

The project accountant and the project manager both receive travel allowances per month. These allowances are for fuel at a set rate. Allowances should be added onto the employee's payslip and taxed as this is a benefit received by the employee. For both the accountant and manager this is not done and cash is just handed to them on a monthly basis with no supporting documents. IE vehicle log books and fuel slips.

b) Contribution to Director for Supervision

██████████ receives a monthly top up on his salary of MWK72 000.00. This amount is not taxed and he receives it in cash without sufficient supporting documents. This budget line was for a contribution towards the director's salary and not for a top up over and above his salary. Therefore this top up is unallowable.

c) Project Driver

The project has been charging ██████████ salary to the project driver's budget line. CBM gave funds for ██████████ salary under P0484 and ██████████ is therefore supposed to get paid from P0484 and not P2951. Below is an extract from the General Ledger showing this expense.

N/C: 6010 Project Driver					
No	Date	Account	Ref	Details	Value
40	25-02-2014	6010	BV00018	██████████ Salary Jan + Feb '14	122,840.00
44	25-02-2014	6010	BV00019	TAX (PAYE)	16,68000
131	21-03-2014	6010	BV00064	██████████ Salary	61,42000
170	31-03-2014	6010	BV00072	TAX PAYE	16,68000
253	02-05-2014	6010	BV000108	Tax PAYE	16,68000
255	02-05-2014	6010	BV000107	██████████ Salary	86,42000

Corrections/ Actions to be taken

a) Monthly Travel Allowances

- Add the monthly set amount onto the staff member's payslip and make sure the correct tax is paid for.
- Or if not added onto the payslip, receipts of fuel and log books of personal vehicles need to be provided with the payment of this allowance.

b) Contribution to Director Supervision

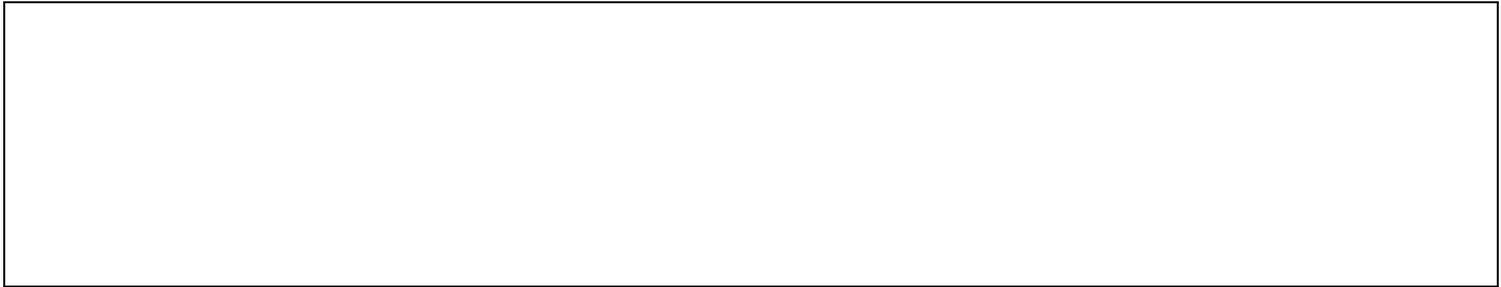
- Tax must be calculated on this amount
- Amount needs to be a contribution towards the directors salary

c) Project Driver

- Remove this expense from P2951 General ledger costs
- P0484 to refund P2951 all salary costs including any tax or travel allowances that was paid to ██████████ during the year.

Action Plan

Person Responsible	██████████	Estimated Completion Date	15 August 2014
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Observation #2	Advances given to staff for expenses
Risk Ranking	High

Certain staff have to pay for expenses and so a cheque is given for the budget amount of the expenses they foresee happening. The following has been discovered with these advances:

- None of the advances are reconciled once the activity or purchases is done
- Cash balances of these advances are not returned or deposited into the bank account
- When processing the accounting for these expenses, the exact expenses are not raised, the advanced amount is raised to the general ledger.

Below are the advances given to staff that have outstanding balances and insufficient invoices

Ref	Date	Advance amount	Slips returned	Balance	Comments
BV00007	17/02/2014	27 000,00	23 000,00	4 000,00	Invoices submitted do not support the advance given
BV00025	27/02/2013	532 440,00	459 645,00	72 795,00	Invoices submitted do not support the advance given
BV00027	27/02/2014	1 240 000,00	1 277 160,00	-37 160,00	Overspend on advance given
BV00047	18/03/2014	65 800,00	57 795,00	8 005,00	Invoices submitted do not support the advance given
BV00050	19/03/2014	240 370,00	207 600,00	32 770,00	Invoices submitted do not support the advance given
BV00073	21/03/2014	100 000,00	206 679,13	-106 679,13	Overspend on advance given
BV00080	09/04/2014	420 500,00	373 921,00	46 579,00	Invoices submitted do not support the advance given
BV00081	09/04/2014	874 000,00	1 245 715,00	-371 715,00	Overspend on advance given
BV00082	09/04/2014	585 000,00	585 000,00	0,00	Exact amounts
BV00084	09/04/2014	224 000,00	114 000,00	110 000,00	Invoices submitted do not support the advance given
BV00085	09/04/2014	463 000,00	463 000,00	0,00	Exact amounts
BV00086	09/04/2014	120 000,00	120 000,00	0,00	Exact amounts
BV00091	10/04/2014	744 000,00	586 000,00	158 000,00	Invoices submitted do not support the advance given
BV00095	16/04/2014	154 000,00	124 825,00	29 175,00	Invoices submitted do not support the advance given

BV00096	17/04/2014	206 382,00	25 062,00	181 320,00	Invoices submitted do not support the advance given
BV00097	17/04/2014	94 101,00	0,00	94 101,00	this amount was double claim from BV00096 on the same invoice
BV00127	27/05/2014	297 000,00	398 864,00	-101 864,00	Overspend on advance given
BC000128	27/05/2014	568 000,00	347 959,00	220 041,00	Invoices submitted do not support the advance given
		Balance Due		339 367,87	€ 617,03

Ref	Date	Advance amount	Slips returned	Balance	Comments
BV00017	25/02/2014	100 000,00	94 300,00	5 700,00	Invoices submitted do not support the advance given
BV00024	27/02/2014	662 500,00	623 635,00	38 865,00	Invoices submitted do not support the advance given
BV00056	19/03/2014	43 000,00	43 000,00	0,00	Fuel paid for by P0484 but no slips attached
BV00078	09/04/2014	210 000,00	29 800,00	180 200,00	Invoices submitted do not support the advance given
BV00079	09/04/2014	275 000,00	114 240,00	160 760,00	Invoices submitted do not support the advance given
BV00092	11/04/2014	216 000,00	137 000,00	79 000,00	Invoices submitted do not support the advance given
		Balance Due		464 525,00	€ 844,59

Ref	Date	Advance amount	Slips returned	Balance	Comments
BV00098	02/05/2014	120 000,00	110 600,00	9400,00	Invoices submitted do not support the advance given
		Balance Due		9400	€ 17,09

Corrections/ Actions to be taken

- All advances must be reconciled and signed off with the sufficient supporting invoices and remaining cash being returned once expenses have taken place. This should happen as soon as the staff member who got the advance returns to the office with the purchases.
- The exact expenses must be recorded in the general ledger and not the advance given, the exact expenses must be shown as per invoices returned.
- All of the transactions where advances have been raised need to be corrected to show exact expenses.
- Cash outstanding by all 3 staff members to be reimbursed immediately:
 - ██████████ MWK339 367,87
 - ██████████ MWK464 525,00
 - ██████████ MWK9400.00
- Provide details of how this problem will be avoided in the future.
- A basic Petty Cash system should be established and reconciled each month.

Action Plan			
Person Responsible	[Redacted]	and	Estimated Completion Date
			15th August 2014

Observation #3	Internet and Telephone Charges
Risk Ranking	High

Both Telephone and Internet is purchased on a monthly basis.
 Internet – MWK29 000.00
 Telephone – MWK 49 000.00

The supporting documents for these purchases are insufficient

Corrections/ Actions to be taken

When purchasing airtime for both Telephone and Internet the supporting documents should be:

- Card purchased which shows amounts and pin to be entered, this is attached after person receiving airtime loads it onto their phone for telephone airtime or onto their dongle for Internet
- Monfort Voucher showing who received airtime and their signature next to the amount received. This is in place but not always signed by person receiving airtime.

Without these two supporting documents, the funds will need to be returned to CBM.

Action Plan			
Person Responsible	[Redacted]	Estimated Completion Date	15th August 2014

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Observation #4	Water and Electricity
Risk Ranking	High

Both Water and Electricity is claimed on a monthly basis.
 Water – MWK30 000.00
 Electricity –MWK50 000.00

The supporting documents for these purchases are insufficient

Corrections/ Actions to be taken

When purchasing electricity the invoice/receipt must be attached to the voucher, which shows units purchased.

When paying for Water, the invoice must be attached to the voucher and not just a statement of an account from the council or a bank deposit slip. Neither the statement or bank deposit slip are sufficient supporting documents.

Without these two supporting documents, the funds will need to be returned to CBM

Action Plan

Person Responsible	[REDACTED]	Estimated Completion Date	15 August 2014
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Observation #5	In Country Travel Expenses/Allowances
Risk Ranking	High

Staff receive allowances for when they are attending trainings/field visits etc. the amount is set at a standard rate per day. Allowances are then paid to the individual either in cash or a cheque. The only supporting documents is the Bank Voucher, Montfort cheque requisition and a copy of the budget and circled with a pen the budget line that the amount is coming from. The supporting documents for these payments are insufficient

Corrections/ Actions to be taken

A document needs to be used as per attached example "Allowance Per Diem Receipt" over and above the Bank Voucher and Montfort Cheque requisition.

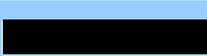
The following must be included on this document:

- Name of recipient
- Organisation
- Dates of the Activity
- Name of Activity
- Details (in this section you would state the exact date for each amount the person received the allowance for)
- Total Allowance
- Signature of the recipient
- Signature of Manager/finance officer (this is the person handing the cash over to the recipient)

There needs to be a document like this for each person receiving their individual allowance. And each individual must sign for their allowance.

The template attached or similar needs to be used, it must have all signatures on it, or else all claims for allowances will need to be returned to CBM.

Action Plan

Person Responsible		Estimated Completion Date	15th August 2014
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Observation #6	Motor Vehicle Claims/Fuel
Risk Ranking	High

a) Montfort College Vehicles

- When Montfort College vehicles are used and fuel is purchased, only a fuel slip is attached to the Bank voucher. No log book providing the details of the trip IE Kilometres travelled, activity, days etc. is filled out and attached to the payment of fuel

- Although this project is not using the vehicle full time there are claims for vehicle batteries, repairs and servicing on the vehicles. The project should only be paying a percentage of these costs depending on the amount for days the vehicles is being used. A total of MWK106 000, 00 was used to cover these costs.

b) Private Vehicles used

- Staff claim fuel from the project when their private vehicles are used.
- Staff also receive a travel allowance on a monthly basis
- Policy states that they receive a certain amount based on where they travelled from and to. They then receive this money in cash
- No fuel slips are returned to support this expenses
- No log books are submitted to show the kilometres travelled, the place travelled from and to, the date of travel and why they had to use their private vehicle for this specific travel
- Car Depreciation is paid to individuals if they use their car, the policy does not state the reason for this or how this amount was decided on, and when a staff member can claim this amount. No supporting documents showing trips were made with private vehicles, only attached to the bank voucher is the policy page circled 6.1. This is insufficient. Please see attached "Car Depreciation Voucher" as an example as to this payment made.

Corrections/ Actions to be taken

a) Montfort College Vehicles

- A log book has to be used to claim fuel purchases. See attached template to be used "Vehicle Log Book". Each vehicle should have one of these and whenever the vehicles is used the trip needs to be recorded. It needs to be made clear what the trip is for and for which project. Fuel cannot be claimed for any trips not related to this project.
- The full cost for repairs and servicing cannot be claimed from this project if the project is not using the vehicles full time, a percentage needs to be worked out depending on the kilometres travelled. The log books can be used to calculate this.

b) Private Vehicles used

- Any claims by staff for monthly travel allowance must take the same process as per observation 1 above.
- Any travel over and above the monthly allowance must be logged on a log book and details recorded for each particular trip and reason why they had to use their own vehicle. No fuel to be reimbursed without log book showing trips made. If fuel is reimbursed the fuel slips must be attached to the bank voucher with the log book.
- Car Depreciation, CBM cannot accept depreciation charges from this point forward. We can only accept claims until 30th June 2014 but none from thereon.

Action Plan

Person Responsible	[REDACTED]	Estimated Completion Date	15 th August 2014
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Observation #6	Entering Transactions into SAGE Pastel
Risk Ranking	High

When entries are captured into SAGE they are captured as per the lump sum cheque given as an advance for the activity. Refer to specific accounts 6501, 6510, 6601, and 6710. The details and exact expenses are not broken down and recorded in the general ledger.

Corrections/ Actions to be taken

Cheque advances should be allocated to a specific accrual account in SAGE. Each person who gets an advance has their own specific accrual account. The cheque when it is withdrawn must get posted to this accrual account. Once the staff member returns with all the slips/invoices this accrual accounts gets credited with each specific expense that has the correct supporting documents and the specific general ledger expense account it's debited. The balance of the accrual account will then show what cash needs to be refunded.

This will alleviate any issues with staff advances and record actual expenses.

All incorrect postings on the general ledger at present need to be corrected. Please refer to the "GL 2014" Attached to give you details and actions needed for each specific entry on the general ledger.

Action Plan

Person Responsible		Estimated Completion Date	15th August 2014
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Observation #7	Outstanding Supporting Documents
Risk Ranking	High

For the period January 2014 – 27 May 2014, 70% of the transactions that have taken place do not have sufficient supporting documents and have not be recorded correctly within SAGE.

This is a total amount of MWK 12 524 945.00 which equates to EURO22 772.00

Please see attached GL 2014 with comments next to each transaction.

Corrections/ Actions to be taken

As per above observations 1-6, using the requests/actions:

- Supply supporting documents

- Correct advances raised as actual expenses
- Reallocate incorrect postings

All supporting documents for Observations 1-6 will need to be supplied to CBM by 15th August 2014, together with a report on all other actions taken to prevent similar issues in the future. If submission is not made, or is incomplete, or is unsatisfactory by the said date, the project will be immediately put on proviso effective 1 Sept 2014. Provisio will remain until satisfactory submission of documents. If issues remain unresolved by 1 December 2014, CBM will consider terminating the project.

Action Plan

Person Responsible	Estimated Completion Date
[REDACTED]	15 August 2014

Observation #8

Segregation of duties

Risk Ranking

High

[REDACTED] does all the Bank vouchers, all the capturing into SAGE, most of the payments/advances and handles most of the cash.

There is no segregation of duties.

Corrections/ Actions to be taken

Segregation of duties needs to be made clear within the office. There is sufficient staff to handle various tasks. Please provide a new plan as to the segregation of duties within the office.

CBM would suggest as follows

- [REDACTED] – prepare vouchers and payments, custodian of petty cash
- [REDACTED] – verify all payments and transactions, entry into SAGE
- [REDACTED] – approve payments

Action Plan

Person Responsible	Estimated Completion Date
[REDACTED]	15 th August 2014

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Observation #9	Expense Schedule
Risk Ranking	High

Montfort College drew up an expense schedule specific to this project.

Corrections/ Actions to be taken

The Expenditure schedule will be subject to final approval of CBM. Feedback will be provided to the partners by 15th August 2014, and recommendations from CBM will be incorporated into the revised schedule for expenditures from 1st September 2014 onwards.

Person Responsible	CBM Country Office	Estimated Completion Date	15th August 2014
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Signed: 15 July 2014

Catherine [Redacted]

[Redacted] Regional Office Southern Africa

MW02 - Equitable access to education for children with disabilities in Malawi
Detailed Report on Initial Internal Audit Findings
27th April 2016

1. Introduction

The “Equitable access to education for children with disabilities in Malawi” project has been implemented by CBM UK in partnership with Montfort College from 1st August 2013 to 31st March 2016. The initial funding agreement was for £ 395,192, which was revised to £267,693 on agreement between CBM UK and the Scottish Government.

On 15th April 2016 CBM submitted a *Summary Report on Initial Internal Audit findings* to the Scottish Government where it was stated that a follow-up report by CBM’s Southern African Regional Director will be provided to the Scottish Government. This *Detailed Report on Initial Internal Audit Findings* provides a cause analysis for the present situation, while outlining in detail the immediate remedial action taken, as well as recommendations for future action.

This report specifically relates to the finding stated in the summary report of three categories of ineligible Montfort College expenditure, identified by CBM – as per Table 1, below. This amounts to a total of 26,727 GBP, approximately 10% of the grant amount, of which 13,188 GBP, amounting to approximately 5% of the grant amount were considered to be under suspicion of fraud. We are in the process of taking legal advice on prosecuting the individuals involved.

Table 1: Summary of unsubstantiated expenditure

Unsubstantiated expenditure as of 14 April 2016	Malawi Kwacha	GBP
Total amount	24,919,380	26,727
Breakdown of the above figure		
a) Inadequate supporting documents for expenses	11 868 465	12,830
b) Disallowable costs	684,219	709
c) Advances with no supporting documentation	12,366,696	13,188

The amounts in question do not undermine the operational results of the project, whereby there have been real changes recorded at the level of children with disabilities, teachers and local government. The project has also tested further the resource centre set-up as a model

for education for children with disabilities, along with mechanisms for supporting continued professional education – which feeds directly into the ongoing development of an Inclusive Education Strategy by the Ministry of Education in Malawi. However, the findings do call into question the partner management and grant management systems put in place for the project by CBM. Further, it raises wider issues for Montfort College and their capacity to deliver outcomes other than training specialist teachers in the Inclusive Education sector in Malawi.

Since the submission of the summary report and upon the request of CBM, Montfort College has conducted an investigation, interviewing current and former members of staff involved in the project. Montfort College initially demonstrated seriousness in its commitment to investigate these immediate findings; however the results of their investigation are not sufficient for CBM to prove or disprove the suspicion of fraud. In addition, there is a lack of commitment from Montfort College within their response to addressing the weaknesses revealed through the internal audit process. There is an indication that the management of Montfort College is not aware of the implications of the findings related to the ineligibility of costs and the consequent financial risk for the organisation. Whilst Montfort College management has not sufficiently addressed the ineligibility of costs and financial risk for the organisation, the chair of the Governing Board has acknowledged the inadequacy of the response of Montfort College management and directed further questions to the Principal. Further investigation is required and CBM is seeking legal advice in order to prosecute the individuals involved.

2. Montfort College background

Montfort College of Education has been a CBM partner since 1971. The College was established by the Catholic Church and initially trained teachers for mainstream schools, starting teacher training for special needs education in 1968.

Since 2000 the Catholic Church was no longer in the position to support the College financially and the Government of Malawi took over the funding of the institution through the Ministry of Education (MoE). The College has since become de facto a MoE institution. Although the proprietor of the College infrastructure is the Catholic Church, the institution is run solely by the MoE, which appoints the Principal, all the College employees and provides the institution with the major part the running costs – including salaries – for its operations. Public funding for the College is based on a Memorandum of Understanding between the Catholic Church and the Government of Malawi, whereby the College receives funds from the MoE based on its status of 'Grant-Aided Institution'. The Governing Board of the College which had become inactive following the end to the financial support of the Catholic Church was re-established in the course of the Scottish Government funded project

Montfort College was considered by CBM as an important partner in the field of special needs education in Malawi, with the main institutional objective of training teachers for special schools, resource centres and other education programmes in Malawi and in the region. This was the reason for the selection of Montfort College for this grant with the Scottish Government, as a natural partner in the field of teacher training.

3. Chronology of Events

In 2013, CBM started a process of Organizational Capacity Assessment at Montfort College of Education to assess the suitability of the institution as a recipient of Scottish Government funding. In the past CBM had funded Montfort College a maximum of 20,000 EUR per year.

A first visit was conducted in July 2013 by the [REDACTED], to assess the technical capacity of the College and a second in August 2013 by the [REDACTED] Finance to assess the financial systems in place to manage the Scottish Government grant.

It was recommended that given the volume of the annual financial operations of the institution and to meet requirements as a recipient of Scottish Government funding there was need for the College to have a Chief Financial Officer which could oversee the totality of Montfort College's finances and control all financial transactions. However, this could only occur with approval of funds from MoE, which was not forthcoming.

In May 2014 a visit was conducted by CBM's [REDACTED] to assess organizational performance in strategic leadership, organizational structure, financial management, child protection and inclusive development practices. This looked in particular at the degree of involvement of the strategic leadership of the college in the supervision of the College operations and finances. This recommended (inter alia) strengthening governance at Montfort College through a Governing Board which had become inactive, this was achieved.

In a third visit, the CBM [REDACTED] at the Regional Office undertook an internal audit of Montfort College in May 2014, which raised concerns relating to financial systems, notably documentation. This included insufficient supporting documentation and advances issued in cash for expenses but not reconciled correctly with cash returned for any remaining funds from the advance. These advances were initially posted directly to the expense account and the entire cheque reflected as an expense, when in fact it was never reconciled with receipts/invoices. Recommendations for corrective actions were made, including the creation of specific accrual accounts for each staff member for the management of advances and expenses.

A further internal audit was conducted in February 2015 where it was found that recommendations had been implemented, with improvements in the management of advances, however some were considered ineligible at that time and personal mileage claims had been made for private vehicles for both [REDACTED] and [REDACTED] for travel between their homes and the office for each day worked. These claims were disallowed and measures put in place for the funds to be reimbursed by the individual staff members.

However, it was a finding of this audit that for the period 1st January – 27th May 2014 (as per a recommendation from the audit in May 2014) that the supporting documents still had not been corrected and required to be reviewed. These are the same expenses that re-appear in the most recent findings related to insufficient documentation and still have not been addressed.

Following the February 2015 audit a letter was sent by the CBM Regional Director to the Principal of Montfort College to address Human Resources and operational issues. Between

March and July 2015 a process was undertaken to address performance issues of the [REDACTED] who was issued with a termination letter in July 2015. The position was replaced in September 2015 by [REDACTED]

In August 2015 Montfort College commissioned an external audit for expenses incurred January – December 2014 under the project without the prior approval of CBM. Montfort College later requested CBM to reimburse the cost of this audit, but it was refused by CBM as ineligible, as it was not approved by CBM or in line with CBM auditing standards. This audit report was stated to be unqualified, asserting full eligibility of all expenditure and compliance with project agreements. There was additionally no reference to previous internal audit recommendations from CBM.

In October 2015 CBM's [REDACTED] Officer conducted a further Organisational Capacity Assessment, which had continued findings on financial compliance and governance of Montfort College. This included issues of: limited frequency of board meetings, changes in management (with the departure of the Principal), gaps in project management skill sets of staff, absence of human resource and finance policies, continued separation in financial management of funds from different sources, gaps in capacity of Montfort College bursar and lack of accreditation of Montfort College courses by the government. However, it did highlight the improvements in project management as a result of the change in project manager.

In the same month inconsistencies were identified by the [REDACTED] at the CBM Regional Office between Montfort College accounts and reported expenditure to the Scottish Government in previous annual reports. In February 2016 the Scottish Government was subsequently informed of the discovery of these inconsistencies and that CBM UK planned to conduct an internal audit. The objective of this audit was to identify the source of these inconsistencies and allow for accounts to be restated to the Scottish Government, along with further clarification of mechanisms to strengthen the partner's financial systems and CBM monitoring and partner management mechanisms.

The internal audit process was undertaken as of February 2016 by a team led by CBM's Internal Audit unit, specifically the Internal Audit [REDACTED], and included the Scottish project lead from CBM UK and the [REDACTED] from the Regional Office. The internal audit exercise which began with an on-site visit of Montfort College at the end of February 2016 was extended due to the high level of financial documentation for the project and CBM's intention to verify 100% of expenditure, given previous audit findings. In addition, in line with the findings of previous audits, there were gaps in documentation and the extension allowed these gaps to be identified and assessed. This extension was overseen by the [REDACTED] at the Regional Office and ended with a further visit by [REDACTED] to Montfort College as of 4th April 2016.

The findings related to unsupported expenditure were raised to Montfort College which was given a deadline of 22nd April 2016 to respond and in parallel the Scottish Government were informed on 15th April of these developments, including the suspicion of fraud related to a set of expenditure. Montfort College conducted an investigation of staff members but were unable to respond by the required date and were provided until the 26th April to give their report. The report sent on 26th April by Montfort College relayed the defense of the project accountant without further input or analysis from MC management. There was a lack of

consistency in the responses and an additional set of vouchers was transmitted by Montfort College to CBM to accompany the report, which appeared to correspond with the dates and amounts of the advances for which there was previously found to be no documentation.

The [REDACTED] of CBM is currently in Malawi and in collaboration with the in-country team has reviewed the documentation sent by Montfort College. She has recommended that an additional investigation be directly conducted by CBM to assess the veracity of the vouchers provided, through direct contact with the suppliers and training participants, etc.

4. Cause analysis - Montfort College and CBM

(a) Montfort College systemic weaknesses in capacity to carry out project implementation.

Key findings:

The relationship between CBM and Montfort College has been ongoing since 1971, however Montfort College had not implemented large scale projects. Montfort College did not therefore have a precedent for project management of this nature, including related aspects of grant management, human resource management and financial systems. The absence of these skills and expertise was a major challenge and negatively impacted on the financial management of the project.

To address the identified project capacity weakness – a project implementation team was put in place, including a project manager, project accountant and driver. This project management team although located within Montfort College premises, remained disconnected from Montfort College, as it did not follow the usual governmental service level agreements that were the usual practice of the college and therefore did not use their existing financial and human resource systems. The project was positioned within Montfort College under the Department for Visual Impairment under the responsibility of the Head of Department, while the Project Manager was line managed by the Deputy Principal on behalf of the Principal. However, this set-up did not translate in effective oversight over project implementation. Although funds were controlled through signatories from different layers of management within Montfort College (Head of Department and Principal), there was a lack of knowledge and understanding of management within Montfort College of the grant to approve expenditure on an informed basis. This disconnection of the project management team from Montfort College led to lack of managerial oversight and lack of internal control within Montfort College. This created the potential for high risk practices to occur within the project.

The status of Montfort College in terms of its being largely state-funded means that it adheres to governmental requirements and policies; however this has meant that Montfort College has not developed its own specific finance and human resource policies. As the governmental requirements and policies used by Montfort College for their MoE funds were not directly applicable to the Scottish Government grant, there was a resultant gap in financial and human resource management with regards to project implementation. The absence of specific financial policies and procedures for the project did therefore create a risk in the management of the Scottish Government grant by the College.

The interaction of CBM with Montfort College was largely through the project implementation team at Montfort College and, although the Principal was involved at strategic moments and lecturers were heavily involved in the project activities, there was not an overall partnership relationship between CBM and Montfort College. As the project implementation team ran in parallel to existing systems, the project and CBM's support to the project implementation team did not reinforce the capacity and systems of the college as a whole. Montfort College management had the tendency to take a back seat with regards to strategic and operational decision making, with expectations that CBM would step in. An example is addressing the poor performance of the former [REDACTED], on which there was initial reluctance for Montfort College management to take action. This was also the case during the recent investigation of suspected fraud by Montfort College, where a firm line has not been taken by management towards their staff, resulting in a weak report of their investigations.

Further, Montfort College management changes reduced further management oversight and ownership of this project. This was compounded by changes at project level, with the new project manager starting in September 2015.

Recommendations:

1. The due diligence process for the selection of partners by CBM requires strengthening – including in cases of historical partnership, particularly where implementation of projects is without precedent for the partner or there is a change in the nature or scale of implementation.
2. Project design processes led by CBM should be further owned by partners and be designed based on their implementation capacities and specific added value to a project.
- 3 Capacity development processes for partners need to be systematised – with specific support provided in setting up and running grant management systems. Partners should be offered orientations at the initiation of a project and, if possible, annual refresher training on technical and administrative aspects of grant agreements. Ongoing performance appraisal and coaching on finance and grant management should be systematically provided and budgeted for.
4. Partner sustainability should be further prioritised as part of project design and implementation, ensuring project processes are not disconnected or parallel to partners existing systems.
5. CBM should consider in future supporting the positioning of Montfort as a significant role player in the provision of comprehensive teacher training in inclusive education. In collaboration with the Government of Malawi, CBM *might* consider support the undertaking of a situational analysis related to the role that Montfort College should play in inclusive education and thereafter to support Montfort College in strategically reviewing its role and structure in order to support the transformation of this key resource on Special Needs Education into a strong and accountable institution of learning. This would include aspects related to accreditation and quality assurance of teaching, as well as financial systems.

(b) Montfort College financial management, compliance with previous audits and suspected fraud

Key findings:

Ineligible expenditure incurred by Montfort College based on the recent findings took 3 forms, which are detailed in turn:

(i) *Expenses for which there is insufficient documentation:* these were largely identified under previous audit reports and this is not a new finding – with the audit confirming that previous audit recommendations have not been addressed.

In June 2014 an internal audit was conducted for the period January 2014 – May 2014. The audit report highlighted insufficient supporting documents for specifically identified expenses. Although varying dependent on the type of expenditure, CBM's requirement for supporting documentation is to have invoices and receipts clearly linked to the project activity that are not only reliant on internal vouchers. The audit report indicated that these expenses were not approved, pending provision by Montfort College of adequate supporting documents. The supply of quotations on larger purchases was also insufficient. It is required to submit 3 quotations, but evidence of this was not found. The minimum requirements for supporting documents were reiterated at the time of that initial internal audit. The most recent internal audit from February-April 2016 confirms that to date the request for adequate supporting documents has not been provided. It was still found that these documents only contained a Montfort College Voucher, which is an internal document and does not support the expense to qualify it to be legitimate as per CBM requirements.

Please see *Annex 1* for the list of expenses for which there is insufficient documentation.

Montfort College response: There was no response from Montfort College on this point other than that this will be ensured in the future. It is noted that this is the third time that the lack of documentation for these expenses has been presented to Montfort College.

(ii) *Disallowable costs:* those that were made by Montfort College without approval by CBM, as required, and were not linked to the project activities.

This specifically concerns assistive devices totalling MWK 684 219.00 (Pounds 912.00) which was paid to Montfort College was not approved by CBM and was not part of any project activity – as there is no evidence of distribution of the assistive devices to the schools covered by the project. Assistive devices included: Hearing Aids, White canes, albino sun lotion, cubes, braille paper.

Montfort College response: The response from Montfort College on this point is that these expenses could not be tracked by them and to request the project accountant to provide evidence from the schools prior to 15th May. However, CBM has verified this with the current [REDACTED], who has a list of all equipment and material provided to schools and therefore this is adequate proof to consider that this expense is not eligible.

In addition, it is suspected that the signatures on the voucher of members of staff of Montfort College are forgeries – based on a comparative analysis of the signatures on the voucher with other signatures of the members of Montfort College management.

(iii) *Advances with no supporting documents:* this is an entirely new finding identified week of 11-15th April 2016 - which is suspected to be fraudulent.

This specifically concerns the discovery of advances taken by staff members for activities for which purpose cheques were written out and cashed, but no voucher or invoice has yet been

provided. These cheques were withdrawn from the bank account of the project and show the project staff member who withdrew the cheque on the bank statement. The majority of these withdrawals occurred between May and October 2015:

- Total for [REDACTED] [REDACTED] MWK 12, 135 203.36
- Total for previous [REDACTED], [REDACTED], MWK 231 465.60

Please see *Annex 2* for the list of advances taken with no supporting documentation.

In previous internal audits conducted by the [REDACTED] at the Regional Office, CBM had identified and addressed risk in financial management, including in the management of advances. While the instances of irregularity previously identified were addressed and different mechanisms were put in place, it has been found that alternative ways to abuse the financial systems were employed by the project accountant.

The new finding of advances with no supporting documentation that are under suspicion of fraud are similar in nature to those previously identified, in terms of undocumented advances, with an evolution in the way the system was abused and now for the first time there is direct evidence and therefore suspicion of fraud linked to individual members of staff. The direct suspicion of fraud comes from having taken the measure to reconstruct the accounts, which enabled CBM to establish the full picture, in addition to being able to directly link individual members of staff to the suspected fraud, as a result of individual accrual accounts put in place after the internal audit in May 2014.

Montfort College response: Montfort College's response on this finding has been to provide CBM with documentation matching the dates and amounts of the advances taken. As above, the [REDACTED] has assessed these vouchers. Without an additional investigation directly with suppliers and participants of training courses, etc, it is difficult to make an absolute statement on their veracity at this stage. However, there are discrepancies already identified in a number of the vouchers, such as cases where figures in pen have been written on top of another voucher or vouchers which visibly are newer than the dates would suggest. In addition, they have been unable to produce the cheque counterfoil book, which would allow the cheque disbursement process for advances to be tracked.

(iv) *Other findings*

Additional to these findings related to ineligible costs, the audit also had findings related to salary tax calculations – that too much or too little had been paid to the Malawi Revenue Services for individual staff. Although this does not have financial implications for the project, it does highlight that Montfort College management weaknesses are not just restricted to this project, but extend more generally to the management of the institution.

Recommendations:

1. Provide opportunity for Montfort College to investigate and respond to these immediate findings, particularly related to the expenses for which no documentation is available, which are under suspicion of fraud through interviews with current and former staff members.

Montfort College has investigated, however their report of the investigation is insufficient and, as stated above, the veracity of the additional vouchers provided is questioned by CBM.

CBM will now undertake investigations on the additional documentation produced by Montfort College – conducting direct verification with suppliers and participants in training courses, etc. to be in a position to give a percentage of veracity of these vouchers.

2. Engage the Montfort College Governing Board in the process to investigate the situation and take action to address underlying weaknesses within Montfort College. CBM has been closely engaging with the Chair of Montfort College Board throughout this process and encouraged the calling of an extraordinary board meeting this week. However, this board meeting did not occur, opting to await the findings of Montfort College's management's investigation.

As the findings of Montfort College's investigation are found to be insufficient, it will be requested to the Montfort College Board to take action. Specifically, there is the option for the Finance and Administration Committee of the Board to be requested by the Board to conduct an internal audit.

3. In parallel CBM to seek legal guidance on steps to be taken in terms of informing the government, notably the governmental regulatory body for NGOs, the Board of NGOs, and the Ministry of Education of the situation. In terms of legal action against the individual staff members of Montfort College who are suspected of fraudulent activity – CBM will investigate taking legal action against the individuals concerned.

4. Immediate risk minimisation strategy to be put in place for project funds: as of the time of the internal audit in-country in February/ March and as a standard practice related to the estimation of partner risk – CBM had already put in place a risk minimisation strategy to safeguard remaining project funds for any remaining costs to be incurred. All project funds were returned to CBM in March and all remaining costs were incurred through CBM's Country Office.

All further costs have been suspended upon the request of the Scottish Government as of 18th April, except for the External Evaluation, pending further clarification from the Scottish Government – as per email of 18th April. This is contractually based and therefore the expenditure is already committed, based on the contract between the consultants and CBM.

The partner Montfort College will be put on proviso in CBM's financial systems, which means that no further funds will be released to them, or only released based on a high number of conditions.

(c) CBM project monitoring

Monitoring, particularly financial monitoring was not conducted based on an informed risk management approach, whereby high risk partners were prioritised with increased monitoring, such as based on high risk ranking in audit reports. Best practice for CBM is to apply an increasingly rigorous approach (e.g. to monitor 100% of expenses of partners where financial risks have been previously identified), such as was the case for Montfort College in the internal audit reports in May 2014 and February 2015. In the case of Montfort College, the internal audits conducted by the Regional Office were instrumental in detecting and taking steps to address financial malpractices. However, gaps were identified in CBM's in-country potential to detect and follow-up on financial malpractices identified by internal

audits. There was a high level of dependency of the Country Office on the Regional Office to conduct effective financial oversight.

At the CBM Country Office, control of expenditure was not sufficiently targeted to high risk areas, specifically to project monitoring controls. Monitoring controls on compliance and financial risks were higher for expenditure related to the Country Office compared to partner projects and the scope of the finance team for CBM Country Office primarily focused on the financial activities occurring within Country Office. Controls of partners in advance of expenditure, e.g. forecasting of budget amounts, and remote-monitoring were prioritised over systematic site-based verification after expenditure had occurred.

The reporting process was found not to have prevented inaccuracies in reports to the Scottish Government, as in-country verification of documentation did not systematically accompany each quarterly report from Montfort College to CBM.

Gaps were also identified in the interaction between the finance and operational teams within the Country Office which reduced the scope to have a coordinated approach to monitoring and capacity development. This contributed to the creation of a high risk environment where there was scope for the project management team at Montfort College to handle advances and expenditure with inadequate controls and, in some cases, lead to suspected fraudulent behaviour.

There were supervisory gaps with regard to oversight from Scotland, UK and South Africa of the Country Office operations as a result of insufficient clarity in roles and responsibilities for grant management, with insufficient access and weight given to different functions within the organisation, particularly those with a direct role in grant management.

Recommendations:

1. Adopt a risk-based approach at the Country Office in Malawi to financial control of projects, to decide where monitoring effort would be best used.
2. Reinforce the Country Office capacities in financial oversight of partners. This can be done through critically reviewing and streamlining finance and administrative processes to free up staff time from procedures that do not add value, adopting a risk-based approach to financial control of projects, to allow for more effective use of monitoring effort and increasing size of financial team at the Country Office. In addition a CBM Finance Coordinator position has been created in Malawi to reinforce the Finance and Accounting Officer and is in place since the beginning of April 2016, which is already producing results.
3. Systematise monitoring plans for partners and ensure regular on-site monitoring. In addition, CBM is in the process of rolling out an organisation-wide consolidated operational and financial tracking tool, which will strengthen and systematise quarterly reporting processes of partners and reinforce monitoring. This will additionally be supported by a new Regional Programme Manager position at the Regional Office, which will coordinate Monitoring, Learning and Evaluation in the region.
5. Ensure that roles and responsibilities for high-stakes projects are agreed upon at project inception and respective duties of all layers of the organisation are coordinated carefully to assure that risk and control processes operate as intended.

From: [REDACTED]
Sent: 20 March 2018 16:01
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: [REDACTED] Position

Hi[REDACTED]

Following on from our discussion and previous exchanges, [REDACTED] and I have had a chance to consider with Finance and Fraud colleagues.

In situations where fraud and/or theft have been committed, the Scottish Government as the funder would look to the Scottish partner and in country partner to demonstrate that they had taken the following action:

- * Inform the Scottish Government Grant Manager that fraud or theft has taken place
- * Consider suspending the individual(s) who committed the fraud/theft
- * Consider what actions need to be taken to report the fraud/theft to the authorities and for them to establish the facts
- * Consider what support is required for any on-going investigation
- * Keep the Scottish Government updated as appropriate advising of the actions to be taken

We discussed the different courses of action open to you, including removing the individual from the organisation completely and removing them only from the project. Ultimately the Scottish Government cannot dictate to organisations what decisions to take regarding disciplining staff, however we noted that the SG expects the highest moral and ethical standards from those we fund, both in Scotland and in our partner countries. If the decision is taken to retain the individual, responsibility lies with their employer to ensure appropriate or adequate supervision to ensure that another incident of this nature does not occur.

Happy to discuss any of this in more detail and please do keep us informed of whichever course of action you decide to pursue.

Kind regards,

[REDACTED]

[REDACTED]

Zambia Development Manager I International Development Team
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Victoria Quay | Edinburgh | EH6 6QQ
T: 0131 244 [REDACTED] | BB: [REDACTED] | E: [REDACTED]@gov.scot

Follow us on Twitter: @ScotGovID

From: [REDACTED]
Sent: 09 March 2018 16:23
To: [REDACTED]
Subject: RE: [REDACTED] Position

Hi [REDACTED]

How are you, I hope you're well.

Apologies for the radio silence on this – we've both been out of the office for different things this week and we're also still snowed under with all of the work emanating from the Oxfam safeguarding allegations.

Turning to the issue with [REDACTED], I've made my colleagues in Finance who deal with fraud aware of what has happened (this is normal procedure). I'll get back to you very shortly with our collective thoughts.

Apologies again for prolonging this – I appreciate that it's a really difficult situation.

Kind regards,

[REDACTED]

[REDACTED]

Zambia Development Manager I International Development Team
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From: [REDACTED]
Sent: 07 March 2018 10:09
To: [REDACTED]
Subject: [REDACTED]

Dear [REDACTED]

I hope this finds you well.

I am writing to know if you have reached a conclusion regarding the role of [REDACTED] in ZYCALA going forward.

We are changing gears within the project right now and it will be the perfect timing to take any action required.

I am looking forward to receiving your recommendations.

Kindly

[REDACTED]

[REDACTED]

Chief Executive Gaia Education
UNITAR Fellow

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