UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

NAMIBIA

Report No. 2226

Issue Date: 3 November 2020

Table of Contents

Report on the Audit of UNDP Namibia
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Namibia (the Office) from 11 to 27 August 2020. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) Governance
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services

The audit covered the activities of the Office from 1 January 2019 to 30 June 2020. The Office recorded programme and management expenses of approximately $11.3 million. The last audit of the Office was conducted by OAI in 2015.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.
(e) Safe and petty cash contents were not verified.
(f) The information communication and technology area was not reviewed.

Overall audit rating

OAI assessed the Office's performance as **partially satisfactory/some improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to the financial sustainability of the Office being at risk.

Key recommendations: Total = **5**, high priority = **1**

The five recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1, 3, 5	Medium
	4	High
Compliance with legislative mandates, regulations and rules, policies and procedures	2	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Financial sustainability at risk (Issue 4)	The Office's management ratio or the management expenditure against programme expenditure, of 30.1 percent (2018) and 19.6 percent (2019) was high when compared with the Regional Bureau for Africa average of 8 percent. This was driven by the following: (a) Low programme expenditure of $5 million in 2019 relative to the available resources of $6.8 million. (b) High management costs of $1 million in both 2018 and 2019, of which 55 percent related to staff costs. (c) Direct project costs that had not been implemented. The financial sustainability risk was further increased by arrears in Government Contributions to Local Office Costs (GLOC) payments comprising $6.8 million dating back to 2008. Recommendation: The Office should address the operational cost and funding challenges by: (a) accelerating delivery; (b) recovering costs through implementation of Direct Project Costing; and (c) engaging with the Government to recover the outstanding GLOC.

Management comments and action plan

The Resident Representative accepted all five recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge Osttveiten
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Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Windhoek, Namibia (the Country) and its Country Programme covered the period 2019–2023 with the following development priorities:

a) Sustainable, Inclusive and Green Growth;
b) Sustainable environmental management and enhanced resilience to shocks and crises; and
c) Improved governance for accountable, responsive institutions and civic engagement

During the period from January 2019 to June 2020, the Office spent $6.6 million on development activities, a decrease of 16.5 percent compared to the previous period.

The largest development projects in terms of expenditure during the period covered by the audit were:

Title	Expenditure Jan.-Dec. 2019 $million	Expenditure Jan.-Jun. 2020 $million
PIMS 5313 Improving Ocean Governance and Integrate	1.8	0.4
Sustainable Management of Namibia's Forested Lands	0.8	-
Support to Inclusive Governance	0.4	-
Improving Hepatitis E Response Namibia	0.3	0.5
Total	3.3	0.9

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period $million
Global Environmental Facility (GEF)	8.7
Gov. Japan	0.5
Gov. German	0.1
Gov. Namibia	0.2
Total	**9.5**

Other critical information

The Office had not been operating at full capacity due to COVID-19 restrictions, which had been in place since March 2020.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. Controls and procedures for governance activities, including corporate planning, risk registers, staff organization, Internal Control Framework and delegation of authority and business continuity were found to be adequate.
(b) Human resources administration. Human resources administration procedures were found to be adequate. Issues identified were discussed with management and cleared.

(c) Administrative services. Common services procedures were found to be adequate. Issues identified were discussed with management and cleared.

OAI made one recommendation ranked high (critical) and four recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendation:
(a) Address operational cost and funding challenges (Recommendation 4).

Medium priority recommendations, arranged according to significance:
(a) Strengthen project management (Recommendation 1).
(b) Improve management of low value grants (Recommendation 2).
(c) Strengthen procurement processes (Recommendation 3).
(d) Engage with the Government to ensure recovery of value added tax (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Project Administration

Issue 1 Weak project management

The 'UNDP Programme and Operations Policies and Procedures' require offices to report on project progress, including programmatic and financial components. Programme personnel should complete field visits for each project at least annually to verify monitoring data. In addition, projects must be governed by a multi-stakeholder Project Steering Committee, established to review performance and address implementation issues to ensure the delivery of results. The Committee should meet annually or more frequently depending on the complexity of the project.

Five projects with $4.2 million in expenditure during the audit period (62 percent of total expenditure) were reviewed and the following exceptions were noted:

- Progress reports were not prepared for two projects for the period under review and the progress reports for one project excluded financial information.
- The Project Steering Committees were not established for two projects. For another project, the Project Steering Committee met once in 2018 and once in 2019; however, this was deemed insufficient given the complex nature of the project.
- Field visits were not documented for the sampled projects. Results reported were therefore not verified by the Office.

The audit team observed that two sampled projects failed to achieve the planned outputs in the timeframe envisaged by the project document.

Weaknesses in project management may compromise project implementation and the achievement of project objectives.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen project management by ensuring that: (a) project progress reports include both programmatic and financial information; (b) the Project Steering Committee meets annually or more frequently depending on project complexity; and (c) field visits and results verification take place at least annually to verify progress.	
Management action plan: The Office will take the following actions: (a) implement a consistent project progress reporting with financials – this will be completed in line with the 'UNDP Programme and Operations Policies and Procedures' and/or donor specific requirements; (b) hold Project Steering Committee meetings as stipulated in the project documents and arrange *ad hoc* meetings to proactively manage any of the emerging risks and issues where necessary; and (c) maintain a programme monitoring schedule at the beginning of each calendar year, which will include conducting field visits and consistent data monitoring. **Estimated completion date:** March 2021	

2. Grants

Issue 2 Inadequate controls over the use of low value grants

The 'UNDP Programme and Operations Policies and Procedures' stipulate that low value grants have a threshold of $150,000. A grantee may be awarded multiple grants up to a maximum value of $300,000 in one programming cycle. All subsequent grants should be approved by the Project Steering Committee.

The Office awarded a grant of $207,000 to one grantee in May 2020, which exceeded the permitted threshold. in addition, the grantee had previously been awarded $63,835 within the programme cycle. There was no evidence that the second grant was approved by the Project Steering Committee. The total amount of low value grants paid by the Office in 2020 was $262,835 to three grantees.

Non-compliance with the low value grants policy may lead to over granting to individual institutions.

Priority	Medium (Important)
Recommendation 2: The Office should improve the management of low value grants by retroactively reporting the grant awarded without board approval to the Project Steering Committee. (a) adhering to the grant threshold requirements and ensuring subsequent grants are approved by the Project Steering Committee.	

Management action plan:

The Office will take the following actions:

(a) retroactively report on grants awarded and secure grant approvals through the Project Steering Committee; and
(b) ensure that multiple grants to a single grantee are approved by the Project Steering Committee.

Estimated completion date: February 2021

B. Operations

1. Procurement/Goods and Services

Issue 3 Weaknesses within procurement

The Internal Control Framework requires segregation of duties between the first level approver and second level approver to prevent a staff member from having two approval roles on the same transaction. Staff are allocated Atlas (enterprise resource planning system of UNDP) approval rights commensurate with their roles. The 'UNDP Programme and Operations Policies and Procedures' stipulate that goods/services should be adequately specified by requesting units, and furthermore, procurement planning should consolidate similar purchases to reduce costs. All bids received should be retained and filed.

The procurement review identified the following exceptions:

- A staff member approved both requisition and purchase order on 28 purchase orders totalling $39,000.
- A staff member was incorrectly granted a project manager profile within Atlas. As a result, 20 requisitions (resulting in the creation of 24 purchase orders totalling $60,000) were approved by this staff member instead of the Project Manager.

A review of 26 purchase orders totalling $577,000 (21 percent of procurement value for the review period) resulted in the following observations:

(a) For seven purchase orders totalling $133,300, the specifications for goods/services were not sufficiently detailed to allow a meaningful comparison of bids; in addition, bid submission deadlines were not defined.
(b) Direct contracting was completed without adequate justification for three purchase orders totalling $71,500.
(c) Two purchase orders totalling $41,000 for similar items were split without adequate justification.
(d) The bids/quotes relating to four purchase orders totalling $41,900 from suppliers were not adequately filed. Initial responses were received through the procurement email, while follow-up emails and extensions of deadlines were communicated directly to the staff members' email.

Improper application of procurement rules and regulations increases the likelihood of errors and value for money not being obtained.

Priority	Medium (Important
Recommendation 3: The Office should strengthen procurement processes by: (a) ensuring adequate segregation of duties exist, and that the Atlas profiles assigned are commensurate with the staff positions; (b) improving procurement planning by ensuring purchase orders include clear specifications of goods/services, and consolidating similar purchases to reduce costs; and (c) adequately filing bids and communication from suppliers.	
Management action plan: (a) The Office will undertake training to improve procurement planning and supervision, and will ensure that staff are familiar with the Internal Control Framework and that no single person approves both requisition and purchase order in a single transaction. The Office will also ensure compliance in relation to specifications of goods/services, competitive selection, as well as bulk purchasing where applicable. (b) Following the audit, the Office initiated a process of aligning Atlas rights with the functional roles of staff. The Office will continue to monitor Atlas rights and ensure that they are aligned with functional roles. **Estimated completion date:** December 2020	

2. Finance/Office Budget and Cost Recoveries

Issue 4 Financial sustainability at risk

Offices are required to secure funding and manage costs to ensure operational continuity. In addition, offices are expected to recover Government Contributions to Local Office Costs (GLOC) in accordance with corporate targets. The 'UNDP Programme and Operations Policies and Procedures' state that direct project costs are levied for costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes). These costs are included in the project budget and charged directly to the project budget for the development activity and/or service. The Direct Project Costing guidelines indicate that services that will result in direct project costs need to be disclosed transparently, agreed to by all concerned parties, and included in the project document and annual work plan.

The Office's management ratio or management expenditure against programme expenditure of 30.1 percent (2018) and 19.6 percent (2019) was significantly higher when compared with the Regional Bureau for Africa average of 8 percent. The high management ratio was driven by the following:

(a) Low programme expenditure of $5 million in 2019 relative to the available resources of $6.8 million.
(b) High management costs of $1 million in both 2018 and 2019, of which approximately 55 percent related to staff costs.
(c) Direct project costs that had not been implemented. In 2019, no eligible staff positions were funded using direct project costs and in 2020 only one position was funded through direct project costs.

In 2019, the Office generated Income of $430,000 (comprising GLOC, General Management Support, agency and other income) compared to management expenditure of $984,695, which was not sustainable. A significant contributor to this revenue gap was arrears for GLOC payments comprising $6.8 million dating back to 2008. The Office was, however, making efforts to engage with the Government for GLOC payments and a contribution of $144,000 was paid in 2020.

Failure to address the funding challenges and manage costs will affect the Office's sustainability and may have a negative impact on the achievement of planned development results.

Priority	High (Critical)
Recommendation 4: The Office should address the operational cost and funding challenges by: (a) accelerating delivery; (b) recovering costs through the implementation of Direct Project Costing; and (c) engaging with the Government to recover outstanding GLOC.	
Management action plan: The Office will strengthen resource planning, and in the short term will take the following actions: (a) host a Government cost sharing workshop in collaboration with the relevant government ministries for accelerating programme expenditure; (b) assign a Direct Project Costing position type to selected posts such as the Procurement and Programme Finance Associate, as applicable, to reduce management costs and implement Direct Project Costing; and (c) continue to seek senior level meetings to encourage the Government to meet their GLOC obligations and propose a payment plan to cover the outstanding GLOC contributions. **Estimated completion date:** January 2021	

Issue 5 Long outstanding value added tax claims

The Office is required to submit claims for refunds of value added tax on a monthly basis.

At the time of the audit, the Office had outstanding value added tax claims of $336,000 dating back to 2019, following the introduction of a new value added tax processing system by the Government. The Office submitted the value added tax claims monthly as required; however, reimbursements had not taken place due to a backlog of outstanding claims.

Outstanding value added tax claims impact the financial sustainability of the Office.

Priority	Medium (Important)
Recommendation 5: The Office should continue to engage with the Government to ensure the recovery of value added tax.	

Management action plan:

The Office has formally corresponded with relevant senior management within the tax authorities and will continue pursuing the matter.

Estimated completion date: March 2021

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** — The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** — The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** — The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.