



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

UN-HABITAT Regional Office for Africa and the Arab States

**The Office needs to ensure that significant
changes to project objectives are not made
without formal approval**

7 April 2010

Assignment No. AA2009/250/01

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Ms. Anna Tibaijuka, Executive Director
A: United Nations Human Settlements Programme

DATE: 7 April 2010

REFERENCE: IAD: 10- 00229

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AA2009/250/01 - Audit of UN-HABITAT Regional Office for Africa
and the Arab States**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendation 2 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Your response indicated that you did not accept recommendation 1. In OIOS' opinion however, this recommendation seeks to address a significant risk area. We are therefore reiterating it and requesting that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendation 1), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

Cc: Ms. Inga Bjork-Klevby, Deputy Executive Director, UN-HABITAT
Mr. Antoine King, Director, Programme Support Division, UN-HABITAT
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Moses Bamuwamye, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Mr. Alpha Diallo, OIC, Nairobi Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of UN-HABITAT Regional Office for Africa and the Arab States

The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-HABITAT) Regional Office for Africa and the Arab States (ROAAS). The overall objective of the audit was to obtain reasonable assurance that ROAAS activities were carried out according to the project documents, cooperation agreements and relevant United Nations regulations and rules, and that funds were used effectively, efficiently and economically. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS assessed that project implementation by ROAAS in Egypt and Iraq was generally carried out as intended in the project documents and generally complied with United Nations regulations and rules. In Chad, however, a change in project objectives was effected, shifting the originally intended beneficiaries of the project from the low income population to the middle and high income population, which was not in compliance with the project document. OIOS recommended the inclusion of a clause in future agreements that would require UN-HABITAT's approval of any significant deviations from agreed project deliverables.

TABLE OF CONTENTS

| Chapter | Paragraphs |
|---|------------|
| I. INTRODUCTION | 1 – 6 |
| II. AUDIT OBJECTIVES | 7 |
| III. AUDIT SCOPE AND METHODOLOGY | 8 |
| IV. AUDIT FINDINGS AND RECOMMENDATIONS | |
| A. Programme and project management | 9 – 22 |
| B. Delegation of authority | 23 – 26 |
| V. ACKNOWLEDGEMENT | 27 |
| ANNEX 1 – Status of Audit Recommendations | |

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Regional Office for Africa and the Arab States (ROAAS) of the United Nations Human Settlements Programme (UN-HABITAT) which is located in Nairobi, Kenya. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. ROAAS supports Africa and the Arab States in implementing projects and programmes. The support is aimed at developing institutional capacity and fostering and expanding partnerships, institutional development and training. As at 30 June 2009, ROAAS had a portfolio of 86 projects valued at \$154 million, of which four projects totaling \$52.4 million were implemented in Egypt, Iraq and Chad.

3. In Egypt, UN-HABITAT in collaboration with the Government of Egypt, undertook a project on the Strategic Urban Plans for Small Cities in Egypt, which started in January 2007. The project, with a budget of \$7.5 million, was intended to develop a strategic vision and enhance urban and land management in 50 small cities within 38 months.

4. In Iraq, UN-HABITAT in collaboration with the United Nations Development Group Iraq Trust Fund (UNDG ITF) undertook various projects. This audit focused on two projects as follows:

- The Rehabilitation of Community Facilities and Infrastructure project, with a budget of \$16 million, which was intended to improve the living conditions of the most vulnerable groups in Iraqi society. The project was expected to run between September 2005 and October 2006.
- The School Rehabilitation and Capacity Building for School Maintenance project, with a budget of \$6.6 million, which was intended to strengthen the education system in Iraq by enhancing access to primary and secondary education and to improve the quality of the learning environment. The project was expected to run between September 2006 and October 2007.

5. In Chad, the Government of Chad with the technical assistance of UN-HABITAT and the United Nations Development Programme (UNDP), undertook a project to implement a national urban development and housing policy in the country in order to improve the living conditions of the urban low income population, including slum dwellers. The first phase was implemented from July 2004 to December 2007. The second phase, with a budget of \$22.3 million, was started in January 2008 and is scheduled to be concluded in December 2010. The main objective of the project was to support the government to develop serviced plots for low income populations, improving informal settlements in cities, strengthening capacities of national and local administrations and formulating strategic development plans for urban areas.

6. Comments made by UN-HABITAT are shown in *italics*.

II. AUDIT OBJECTIVES

7. The main objectives of the audit were to obtain reasonable assurance that:

- (a) ROAAS activities were carried out in accordance with the project documents and cooperation agreements;
- (b) ROAAS activities were carried out in accordance with relevant United Nations regulations and rules; and
- (c) Funds received from donors were used effectively, efficiently and economically.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit covered programme activities implemented by ROAAS for the period January 2007 through September 2009. In particular, the audit focused on programme and project management, delegation of authority, financial management and asset management in four projects that were being implemented in Egypt, Iraq and Chad. The audit was carried out by interviewing management and staff, reviewing of various documentations and visiting project sites.

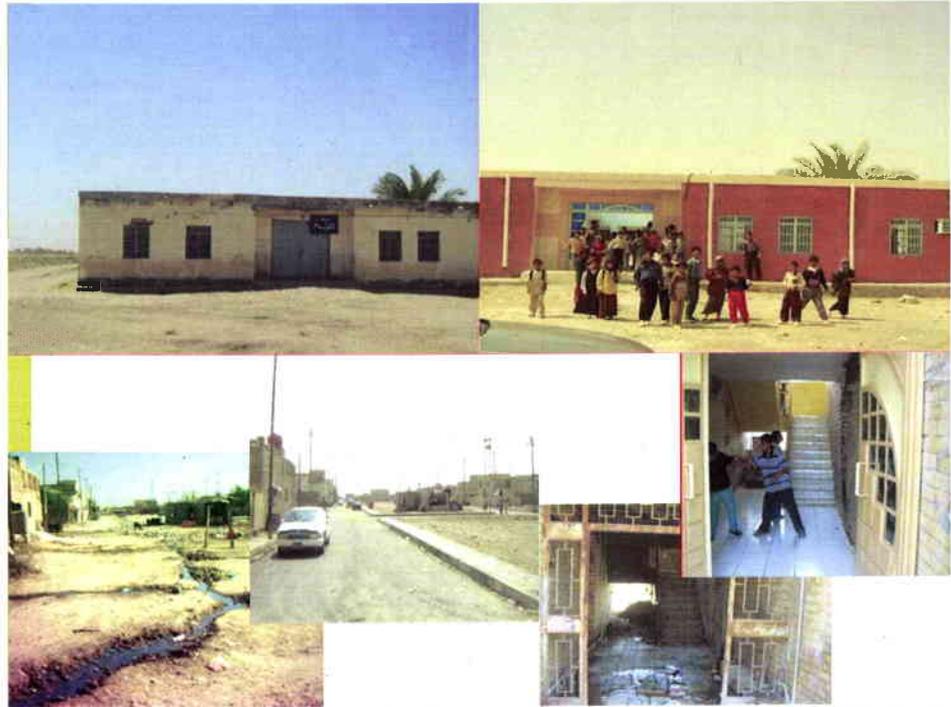
IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Programme and project management

Project outputs partially achieved

9. In Egypt, the Strategic Urban Plans for Small Cities project was proceeding on schedule. An appropriate management structure had been set up and a reliable monitoring and evaluation mechanism was in place as required in the project document.

10. In Iraq, OIOS assessed that the Rehabilitation of Community Facilities and Infrastructure project had succeeded in improving housing conditions for families, rehabilitation of schools, hospitals, and water treatment plants, and providing employment opportunities as intended in the project document.



Examples of the rehabilitation of schools and roads in Iraq. (Source: UN-HABITAT Iraq Programme Office)

11. In addition, the School Rehabilitation and Capacity Building for School Maintenance project, under the responsibility of UN-HABITAT, had been completed, with success noted mainly in the area of school rehabilitation and training of teachers and stakeholders in best practices.

12. In Chad, however, there were delays in the implementation of the project. According to the project team, the delays were caused by: (a) the political instability in Chad; (b) the unavailability of funds (from January 2008 to August 2009); (c) the lengthy procurement process; (d) the non-adoption of laws on land and housing; and (e) the local capacity in design and construction houses in both the public and private sector.

Shift in the targeted beneficiaries of the project without formal endorsement by UN-HABITAT

13. There was a change in the final beneficiaries of the project in Chad. The project document indicated that the project was centered on supporting the government to develop serviced plots for low income populations by improving informal settlements in cities. However, the plots that were being serviced and the 70 pilot housing units that were under construction at Patte D'Oie in N'Djamena were intended for the middle or high income population. The picture below illustrates an example of the type of houses that were being constructed.



Type of houses under construction in N'Djamena, Chad. (Source: UN-HABITAT Office in Chad)

14. According to the project team, the increase in construction costs resulted in high house prices, which the low income group could not afford. Therefore, the Government of Chad decided to change the prospective final beneficiaries from the low to the middle and high income population. The project team explained that the proceeds from the sale of plots in Patte D'Oie would then be used to purchase other plots which could be used to construct houses for the low income population. OIOS was not able to obtain evidence of any formal endorsement from UN-HABITAT on the change of plan as stated in the project document. Without an agreement between the Government of Chad and UN-HABITAT with a clause requiring prior approval of amendments, there was a risk that UN-HABITAT could be involved in projects that are not necessarily in line with its mandate, exposing UN-HABITAT to reputation risk should projects fail.

Recommendation 1

(1) UN-HABITAT should ensure that a clause is included in project documents that requires formal endorsement by UN-HABITAT of any subsequent significant changes to project objectives.

15. *UN-HABITAT did not accept recommendation 1, stating that the project document is an internal document, and that the project phase covered by the project document has been completed and such clause would not add any value. OIOS takes note of the explanation given, but reiterates the need for UN-HABITAT to ensure, for future similar projects, that proper mechanisms are put in place to prevent any subsequent deviations or substantial changes in project*

objectives without prior formal endorsement by UN-HABITAT. Recommendation 1 remains open pending the introduction of a project agreement that would require UN-HABITAT's prior endorsement of any subsequent material deviations from the project's objectives.

Late involvement of the Project Review Committee in project approval process

16. The Project Review Committee (PRC) gets involved in the approval of projects at a late stage. For example, in projects funded through the UNDG ITF, the PRC became involved approximately 18 months after a project was initiated. This was because projects went through a lengthy review. The process started with a Project Concept Note (PCN) that had to be approved by the Government of Iraq. This was followed by a technical review and approval by a Thematic Group which includes UN agencies, donors and Non-Government Organizations (NGOs). Subsequently, a peer review was carried out by donors for cross cutting issues, after which final approval was granted by the Government of Iraq. The proposed project was then submitted to the Multi Donor Trust Fund Steering Committee for approval, and only after that approval did the UN-HABITAT PRC get involved.

17. Input to project documents by the PRC could be more substantive if they were to receive project documents earlier in the process. The late approval by the PRC limits its ability to contribute to the process, since at this stage it would be unlikely that the PRC input could be taken into account.

18. ROAAS has, however, addressed some weaknesses of the current PRC in the Guide to Programme and Project Review Mechanism (dated 3 September 2009). In this document, strengthened processes are intended to ensure that "programmes and projects developed and implemented by UN-HABITAT are consistent with and contribute to the achievement of the Medium Term Strategic and Institutional Plan results."

Recommendation 2

(2) UN-HABITAT should involve the Project Review Committee in the early stages of the project approval process.

19. *UN-HABITAT accepted recommendation 2 and stated that the recommended approach had already been implemented. As part of the Programme and Project Review Guidelines implemented in September 2009, the PRC, through a two-stage project approval process, is now involved very early in the project development process. With the exception of emergency projects, which are unpredictable, project briefs are first developed and cleared by the PRC well in advance of the period for which implementation is to commence, in order to allow time for adequate dialogue and review. A full project document is then prepared and reviewed for approval by the PRC before start of the project. Based on the action taken by UN-HABITAT, recommendation 2 has been closed.*

Records management system needs to be strengthened

20. OIOS assessed that there was a need to increase the data storage capacity of the office, in light of the large electronic files sent to the Cairo Office by a significant number of consultants (about 70). In addition, the project filing system was not satisfactory, which made project information difficult to retrieve. Without a proper filing system, there is a risk that crucial data could be lost.

21. The Senior Human Settlements Officer (SHSO) informed OIOS that a filing system for all projects managed by the Cairo Office had been recently established and that consultations were underway with the Information Services Section to gradually enhance that system to conform to the standard UN-HABITAT filing system.

Recommendation 3

(3) UN-HABITAT should prepare an action plan for the implementation of its record management system in the Cairo Office.

22. *UN-HABITAT accepted recommendation 3 and stated that the Cairo Office would prepare an action plan for the implementation of an electronic project database. The Cairo Office has a records management system for physical records. Recommendation 3 remains open pending receipt of the action plan prepared by the Cairo Office.*

B. Delegation of authority

The scope of the delegated authority for procurement needs to be clarified

23. The Iraq Programme Office was under-utilizing its delegation of authority to procure goods and services. The UN-HABITAT Headquarters delegated authority to the Programme Manager of the Iraq Programme Office for the procurement of goods and services up to \$150,000. Procurement above \$150,000 was handled by the Procurement, Travel and Shipping Services of the United Nations Office at Nairobi (PTSS/UNON).

24. The Programme Manager exercised his delegated authority only for procurement undertaken locally. For international procurement, there had been a misunderstanding as a result of informal communication from UN-HABITAT Headquarters that the delegation of authority only covered local procurement. Consequently, goods and services procured internationally were initiated by the Iraq Programme Office and finalized by PTSS/UNON regardless of the amount involved, which proved to be a lengthy process that affected the efficiency and effectiveness of programme delivery.

25. OIOS confirmed with UN-HABITAT Headquarters and PTSS/UNON officials that the delegation of authority given to the Iraq office actually covered both local and international procurement and that the current practice was indeed a misunderstanding.

Recommendation 4

(4) UN-HABITAT should formally inform the Programme Manager of the Iraq Programme Office that the delegation of authority covers both local and international procurement of goods and services up to \$150,000.

26. *UN-HABITAT accepted recommendation 4 and stated that its Project Support Division will inform the Programme Manager of the Iraq Programme Office that the delegation of authority covers both local and international procurement of goods and services up to \$150,000. Recommendation 4 remains open pending the receipt of written communication clarifying the delegation of procurement authority.*

V. ACKNOWLEDGEMENT

27. We wish to express our appreciation to the Management and staff of UN-HABITAT for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

| Recom. no. | Recommendation | Risk category | Risk rating | C/O ¹ | Actions needed to close recommendation | Implementation date ² |
|------------|---|---------------|-------------|------------------|--|----------------------------------|
| 1 | UN-HABITAT should ensure in future, a clause is included in project documents that require formal endorsement of any subsequent significant changes to project objectives. | Governance | High | O | Introduction of proper mechanisms in place to prevent any subsequent deviations or substantial changes in project objectives without prior formal endorsement by UN-HABITAT. | Not provided |
| 2 | UN-HABITAT should involve the Project Review Committee in the early stages of the projects approval process. | Governance | Medium | C | Action completed | Implemented |
| 3 | UN-HABITAT should prepare an action plan for the implementation of its record management system in the Cairo Office. | Operational | Medium | O | Submission to OIOS of a copy of the action plan prepared by the Cairo Office | 30 June 2010 |
| 4 | UN-HABITAT should inform the Programme Manager of the Iraq Programme Office that the delegation of authority covers both local and international procurement of goods and services up to \$150,000. | Operational | Medium | O | Submission to OIOS of a copy of written communication clarifying the delegation of procurement authority | 30 December 2009 |

¹ C = closed, O = open² Date provided by UN-HABITAT in response to recommendations