



INTERNAL AUDIT DIVISION

AUDIT REPORT

UN-HABITAT Somalia Programme

UN-HABITAT operates the Somalia Programme in an unstable environment and needs to improve assessment of donor satisfaction and compliance with security standards

4 April 2011

Assignment No. AA2010/250/02

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: Mr. Joan Clos, Executive Director
A: United Nations Human Settlements Programme

DATE: 4 April 2011

REFERENCE: IAD: 11- **00336**

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

Fatoumata

SUBJECT: **Assignment No. AA2010/250/02 - Audit of the UN-HABITAT Somalia Programme**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the 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. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1, 5 and 6), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Alioune Badiane, Director, Regional Office for Africa and Arab States, UN-HABITAT
Mr. Antoine King, Director, Programme Support Division, UN-HABITAT
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Rohan Wijeratne, Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
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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 the UN-HABITAT Somalia Programme

The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-HABITAT) for Somalia. The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over the UN-HABITAT Somalia programme. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

UN-HABITAT has been able to operate in a very unstable environment to achieve its objectives and position itself as the lead agency of the United Nations in joint programme activities undertaken in Somalia. However, programme activities in Somalia experienced significant delays due to extreme volatility, deteriorated security conditions and staff turnover. The programme also suffered from limited support funding as a result of the low assessment rate for programme support cost. OIOS identified the following opportunities to improve the Somalia programme operations:

- Devising a mechanism to regularly assess donors' satisfaction to ensure that donor concerns are addressed;
- Reviewing the effectiveness of existing contractual arrangements in attracting and retaining qualified staff in hazardous areas; and
- Ensuring compliance with area-specific Minimum Operating Security Standards.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1-6
II. AUDIT OBJECTIVES	7
III. AUDIT SCOPE AND METHODOLOGY	8-10
IV. AUDIT RESULTS	
A. Project management	11-13
B. Financial resources	14-17
C. Human resources	18-19
D. Security	20-23
V. ACKNOWLEDGEMENT	24
ANNEX 1 – Status of Audit Recommendations	
ANNEX 2 – Photographs of inspected project sites in the municipality of Hargeisa, Somaliland.	

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-HABITAT) activities in Somalia. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. Somalia remains without a functioning recognized central government since the fall of the government of Siyad Barre in January 1991. Despite the establishment of functional authorities in the North West and North East, the Central and Southern zones of the country remain wracked by inter and intra clan conflicts. Somalia is currently under various Security Phases: Phase III (Relocation Phase) in parts of Somaliland where project sites field visits (Annex 2 refers) have been carried out, Phase V (Evacuation Phase) in Mogadishu and the Bahade District, and Phase IV (Emergency Operations Phase) in the rest of the country.
3. UN-HABITAT has been active in Somalia for the last 25 years. At present, the agency concentrates its work on two pillars: local governance and decentralized basic service delivery and shelter for internally displaced persons (IDPs) and urban poor. A third pillar of activities that was meant to deal with reconstruction has to date remained dormant for lack of funding.
4. The Somalia Programme Office (SPO) structure consists of three units based in Nairobi: a Governance Cluster, a Shelter/IDP cluster and Administration and Management Support. These three units are staffed with six project personnel, five at the professional level and one at the general service level, fully funded by donor contributions and report directly to the Chief Technical Advisor (CTA), a role assumed by an Officer-in-Charge since May 2007 because of lack of funds. Four consultants on special service agreements (SSA) also support the activity of the three units. A local presence is ensured by 21 project staff in Hargeisa, Garowe, Bossasso and Jowhar recruited with service contracts at the level SC2-SC5 and two national officers recruited at the NO-A and NO-B level.
5. The total programme expenditure for the period from 1 January 2008 to 30 September 2010 was over \$12 million. The main source of funding for the programme is donors' contributions mobilized by the programme at the country level.
6. Comments made by UN-HABITAT are shown in *italics*.

II. AUDIT OBJECTIVES

7. The main objectives of the audit were to assess the adequacy and effectiveness of internal controls to ensure that:
 - (a) Risks relating to the governance of the UN-HABITAT Somalia programme are managed effectively; and
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(b) Programme activities are carried out in accordance with the project documents, internal policies, cooperation agreements and relevant United Nations Regulations and Rules.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit covered the UN-HABITAT Somalia programme management and funding arrangements. These included the review of UN-HABITAT standing within the UN Agencies, coordination and operating arrangements in Somalia, project design, funding, approval, implementation, monitoring and closure, as well as supporting administrative activities with a special focus on procurement and human resources management.

9. The audit was carried out from 11 October to 9 December 2010 and included reviewing documentation related to a sample of 11 projects representing 67 per cent of the total dollar amount out of a population of 19 projects, and related procurement, outsourcing and human resources processes. The audit also involved interviewing staff members at Headquarters and field offices, donors and implementing partners, and undertaking project site visits to verify output and meet beneficiaries.

10. Due to current security conditions (Phase IV and V in most of the country), field visits (Annex 2 refers) were limited to the town of Hargeisa in Somaliland Area I. The audit covered the period 1 January 2008 to 30 September 2010.

IV. AUDIT RESULTS

A. Project management

Project risk analysis exists

11. Nine out of the 11 projects reviewed had been delayed from a few months up to two years, due to harsh environmental conditions and/or changes in security conditions, as well as limited capacity of partners to deliver to expectations. Most projects had a project risk assessment section identifying the issue and/or related risk, but did not generally elaborate on mitigation measures and contingency planning. *The UN-HABITAT Executive Director explained that the UN-HABITAT Somalia Programme operates in an environment characterized by extremely volatile and tight security conditions. This challenging environment forced the programme to scale down, suspend or delay project deliveries in line with the prevailing security situations causing much of the delays noted by OIOS.*

UN-HABITAT needs to establish mechanisms to systematically assess donor satisfaction

12. The SPO operates in a unique blend of activities and volatile environments, with 100 per cent of its funding provided by donors. This condition is common to many UN-HABITAT country programmes and activities.

The absence of a systematic collection of feedback from donors in an increasingly competitive environment deprives UN-HABITAT of essential information for decision-making which would enable it to correct shortcomings, improve donors' satisfaction, increase visibility of success stories and raise more funds. OIOS interviews with donors confirmed potential for improvement in this area.

Recommendation 1

(1) The UN-HABITAT Executive Director, in consultation with the Regional and Technical Cooperation Division, should devise a mechanism to regularly assess donors' satisfaction.

13. *The UN-HABITAT Executive Director accepted recommendation 1 and stated that UN-HABITAT collects donors' satisfaction feedbacks through informal and formal interactions with donors during the execution of projects as well as part of project evaluations. Nonetheless, UN-HABITAT in consultation with the Regional and Technical Cooperation Division will devise a formal corporate mechanism to regularly monitor donors' satisfaction. Recommendation 1 remains open pending confirmation of the establishment of a formal mechanism to regularly assess donors' satisfaction.*

B. Financial resources

Absence of an emergency response fund hinders quick deployment in emergency areas

14. Despite the fact that UN-HABITAT often operates in emergency situations in several areas of the world, it does not maintain a readily available emergency response fund for urgent needs in shelter and urban management. Such a fund could have been used, for example, to start up the intervention in the Xaafuun peninsula, North East Somalia following the Tsunami in 2004. UN-HABITAT programme managers do not consider an existing revolving fund, i.e., the Disaster Management Programme Surge Facility (DMPSF), to be an adequate tool for such a purpose. In fact, given the nature of its funding structure, the Somalia Programme would not necessarily be able to reinstate the amount borrowed from the revolving fund in case the emergency interventions were not further supported by donors' subsequent commitments to ad-hoc project funds.

Recommendation 2

(2) The UN-HABITAT Executive Director should consider establishing a corporate fund for emergency response operations.

15. *The UN-HABITAT Executive Director accepted recommendation 2 and stated that UN-HABITAT is currently studying the feasibility of establishing a corporate fund for emergency operations. Recommendation 2 remains open*

pending receipt of the results of the feasibility study on establishing a corporate fund for emergency response operations.

Programme support cost not in compliance with the requirements in the Project Manual

16. Chapter 1 of the UN-HABITAT Project Manual, which deals with Programme Support Cost (PSC), requires that PSC be charged at 13 per cent on all projects, except for specific situations in which a lower rate can be agreed upon with donors. Despite such requirements and with no special exceptions, UN-HABITAT has been approving projects at a lower rate even in the absence of the circumstances as identified in the Project Manual. The review of a sample of 11 projects highlighted that the prevailing assessed rate was seven per cent, and interviews conducted with donors and programme staff indicated that this rate was dictated by market conditions. Moreover, given that there is no provision and condition in the Project Manual for the use of prevailing market rate, there is a need either to ensure compliance with the Project Manual or to amend it to clarify the conditions that prevent UN-HABITAT from enforcing such a requirement.

Recommendation 3

(3) The UN-HABITAT Programme Support Division should consider amending its Project Manual to include provisions and conditions for the use of prevailing market rates for its Programme Support Cost; otherwise, compliance with the current Project Manual should be enforced.

17. *The UN-HABITAT Executive Director accepted recommendation 3 and stated that UN-HABITAT is currently reviewing its programme support cost structure and practices and would provide additional guidelines in the next revision of the Project Manual.* Recommendation 3 remains open pending confirmation that the outcome of the review of programme support costs has been reflected in the revised Project Manual.

C. Human resources

High staff turnover due to less attractive remuneration packages

18. The UN-HABITAT SPO loses qualified project staff to other United Nations agencies offering overall better remuneration packages, which adversely affects project implementation. All but one field project staff at the Hargeisa office, are hired for four, six or twelve month periods. The terms and conditions are less attractive than those offered by other agencies. In addition, while hazard pay is paid by other agencies as a monthly entitlement regardless of the presence of staff in the office, UN-HABITAT pays it on a per-day-in-the-office basis, further making it less attractive to what is offered by other UN agencies. This has already resulted in four staff members leaving the organization for better

opportunities in other UN agencies and has resulted in increased workload for those who are presently employed.

Recommendation 4

(4) The UN-HABITAT Executive Director should review the use of different contractual arrangements vis-à-vis other United Nations agencies to attract and retain qualified staff, especially in hazardous areas.

19. *The UN-HABITAT Executive Director accepted recommendation 4 and stated that UN-HABITAT, in consultation with RTCD, will review the use of different contractual arrangements vis-à-vis other United Nations agencies and consider options with the view to ensuring retention of qualified staff. Recommendation 4 remains open pending confirmation that a review of the use of contractual arrangements has been finalized and its output reflected in hiring practices to help attract and retain qualified staff in hazardous areas.*

D. Security

Lack of full compliance with the Minimum Operating Security Standards increases risks to staff and assets

20. The Hargeisa office is not fully compliant with relevant area-specific Minimum Operating Security Standards (MOSS) required for Phase IV in effect until October 2010, and Phase III at the time of the audit. While Management has recently undertaken steps to improve compliance, the following requirements still await action:

- (a) Appropriate access control measures (specifically lack of equipment to detect explosives and female guards to search female visitors);
- (b) Emergency food and shelter supplies, in non-perishable forms, to be stocked in preparation for use in the safe room; and
- (c) Adequate drinking water, food, sleeping bags, etc. to support all vehicle occupants for 24 hours.

21. In addition, in five of the 11 projects reviewed, no provisions were made for security costs, and in two projects, such provision was limited to coordination.

Recommendations 5 and 6

The UN-HABITAT Somalia Programme Office should ensure that:

(5) Area-specific Minimum Operating Security Standards are fully complied with at all office locations; and

(6) Adequate budgetary provisions for security are made in the project documents.

22. *The UN-HABITAT Executive Director accepted recommendation 5 and stated that UN-HABITAT considers security and safety of its operations very important and recruited a full-time security and safety officer at HQ. Steps will be taken to ensure that specific MOSS are fully complied with at all office locations in Somalia. Recommendation 5 remains open pending confirmation that MOSS requirements in Somalia are fully complied with at all office locations.*

23. *The UN-HABITAT Executive Director accepted recommendation 6 and stated that while UN-HABITAT Somalia is dependent on donors' voluntary contributions, it will spare no effort in trying to engage donors during the project negotiations to consider appropriate financial support for project security provisions. Recommendation 6 remains open pending confirmation that adequate budgetary provisions for security are being incorporated in new project documents.*

V. ACKNOWLEDGEMENT

24. 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	The UN-HABITAT Executive Director, in consultation with the Regional and Technical Cooperation Division, should devise a mechanism to regularly assess donors' satisfaction.	Financial	High	O	Submission to OIOS of documentation showing the establishment of a formal mechanism to regularly assess donors' satisfaction	31 December 2011
2	The UN-HABITAT Executive Director should consider establishing a corporate fund for emergency response operations.	Operational	Medium	O	Submission to OIOS of the feasibility study for the establishment of a corporate fund for emergency response operations	30 June 2012
3	The UN-HABITAT Programme Support Division should consider amending its Project Manual to include provisions and conditions for the use of prevailing market rates for its Programme Support Cost; otherwise, compliance with the current Project Manual should be enforced.	Financial	Medium	O	Submission to OIOS of documentation showing that the outcome of the review of programme support costs has been reflected in the revised Project Manual	31 December 2011
4	The UN-HABITAT Executive Director should review the use of different contractual arrangements vis-à-vis other United Nations agencies to attract and retain qualified staff, especially in hazardous areas.	Human Resource	Medium	O	Submission to OIOS of documentation showing that a review of use of contractual arrangements has been finalized and reflected in hiring practices to help attract and retain qualified staff in hazardous areas	31 March 2012
5	The UN-HABITAT Somalia Programme Office should ensure that area-specific Minimum Operating Security Standards are fully complied with at all office locations.	Human Resource	High	O	Submission to OIOS of documentation showing that MOSS requirements in Somalia are fully complied with at all office locations	31 December 2011
6	The UN-HABITAT Somalia Programme Office should ensure that adequate budgetary provisions for security are made in the project documents.	Financial	High	O	Submission to OIOS of documentation showing that adequate budgetary provisions are being incorporated in new project documents	31 December 2011

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

Photographic evidence of inspected project sites in the municipality of Hargeisa, Somaliland



Hargeisa – market rehabilitation: Inji, structure and beneficiaries



Hargeisa – market rehabilitation: Mohamed Mooge, structure and beneficiaries



Hargeisa – shelter for Internally Displaced Persons (IDPs) and returnees: Ayaha, infrastructure and beneficiaries



Hargeisa – enabling municipal counterparts



Hargeisa – Ayaha, infrastructures