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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. Robert Sorenson
A: Deputy Special Representative of the Secretary-General
United Nations Interim Administration of Kosovo

DATE: 20 October 2011

REFERENCE: IAD: 11- 00634

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

Fatoumate

SUBJECT: **Assignment No. AP2010/650/03 – Audit of management of UNMIK Administration of Mitrovica and the role of Municipal Representatives in northern Kosovo**
OBJET: **Mitrovica and the role of Municipal Representatives in northern Kosovo**

Overall results relating to UNMIK's Administration of Mitrovica, and its formulation of strategies to implement its mandate in northern Kosovo were partially satisfactory

1. Attached please find the final report on the above-mentioned audit.
2. Annex-I shows the status of recommendations. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly. OIOS will also report to the Secretary-General, annually for important recommendations.
3. Please note that under General Assembly resolution 59/272, a Member State may request that the final report be made available. Also note that pursuant to General Assembly resolution 64/263, OIOS has included the complete management response as an annex to the present report.
4. We wish to express our appreciation to the Management and staff of UNMIK for the assistance and cooperation extended to the auditors during the assignment.

cc: Mr. Anil Vasisht, Head, Mitrovica Regional Office, UNMIK
Mr. Omer Dincsoy, Political Affairs Officer, OCOS, UNMIK
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Seth Adza, Chief, Audit Response Team, Department of Field Support
Mr. Moses Bamuwamye, Executive Secretary, IAAC
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Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Ms. Eleanor Burns, Chief, Peacekeeping Audit Service, OIOS
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

FINAL AUDIT REPORT

Audit of management of UNMIK Administration of Mitrovica and the role of Municipal Representatives in northern Kosovo

BACKGROUND

UNMIK Administration of Mitrovica (UAM) was established by UNMIK Administrative Directive 2002/26 of November 2002 to administer the northern part of Mitrovica Municipality after Serbs boycotted participation in the Assembly of Mitrovica Municipality located south of the Ibër/Ibar River. The Administrative Directive gives UAM all responsibilities and powers accorded to municipalities under UNMIK Regulation 2000/45 as amended by UNMIK Regulation 2007/30.

UNMIK has Municipal Representatives in Leposaviq/Leposavić (Leposaviq/ć), Zvečan/Zvečan and Zubin Potok Municipalities. UNMIK Regulation 2007/30 specifies the role of Municipal Representatives as monitoring, mentoring and advising municipalities to ensure that: (a) municipal decisions comply with United Nations Security Council resolution 1244 and the applicable law; and (b) fundamental principles of human rights and equal treatment are respected and that the rights and interests of communities are protected. Also, Municipal Representatives are responsible to assist with creating conditions for the return of internally displaced persons and refugees to their communities of origin and ensuring that there are peace-building and reconciliation programmes and activities.

Municipal structures of Leposaviq/ć, Zvečan/Zvečan and Zubin Potok existed prior to the war in 1999. After Kosovo declared independence in February 2008, the three Municipal Assemblies decided not to recognize the independence of Kosovo and boycotted Kosovo institutions including financing from the Kosovo consolidated budget. Consequently, the three municipalities have continued receiving funds from the Serbian Government. UNMIK only monitors and advises the municipalities to ensure that their minorities are provided for.

This audit was included in OIOS' 2011 risk-based work plan at the request of management and also due to the criticality of UNMIK's effective administration of Mitrovica.

OBJECTIVE AND SCOPE

This audit was conducted to assess the adequacy and effectiveness of UNMIK's risk management, control and governance processes in providing reasonable assurance regarding its effective management of UAM, and its formulation of strategies to implement its mandate in northern Kosovo. The key controls tested for the audit included those related to: (a) risk management and strategic planning; (b) oversight mechanisms; (c) project management; and (d) documentation retention. The audit covered UNMIK's management of UAM and the role of Municipal Representatives in northern Kosovo for the period 2009-2010.

AUDIT RESULTS

In the opinion of OIOS, UNMIK's risk management, control and governance processes were **partially satisfactory** to provide reasonable assurance regarding effective management of UAM and formulation of adequate strategies to implement UNMIK mandate in Northern Kosovo. UNMIK had implemented an adequate risk management system and strategies were developed and adequately reflected in the work plans. However, the Mission's realization of its goals had been hampered by major challenges including the: (a) unwillingness of northern Kosovo municipal authorities (Leposaviq/ć,

Zvečan/Zvečan and Zubin Potok) to cooperate with Kosovo institutions; and (b) varying strategic approaches for administering northern Kosovo including Pristina's Kosovo strategy for the north and the International Civilian Office's Martti Ahtisaari plan. OIOS recognizes that many of the challenges were beyond UNMIK's control and that the European Union was facilitating a dialogue between Pristina and Belgrade to resolve some key practical issues. UNMIK reports dialogue-related developments to the Secretary-General and the Security Council.

Oversight mechanisms

The Advisory Board (Board) appointed in 2003 to advise the Head of UAM lacked clear rules of procedures and, between 2006 and 2010, convened only 17 out of the expected 60 meetings. The ineffective performance of the Board was attributed to the political situation on the ground and non-payment of allowances to Board members. At the time of the audit, Management had begun reorganizing the Board including drafting rules of procedure and expanding membership from 8 to 16 in consultation with stakeholders. Due to the steps being taken to improve the effectiveness of the Board, no recommendation was made.

The organizational structure for UAM provides for the post of Internal Auditor who should evaluate internal processes and provide reasonable assurance that internal controls are adequate and working effectively. The post was filled and although the incumbent had an audit manual for use during his work, there were no clear terms of reference or delegated authority to guide the performance of his duties. In addition, there were no work plans or reports of work done by the Internal Auditor. Consequently, UAM did not effectively utilize audit services to provide independent assurance of adequacy and effectiveness of controls in place.

(1) The Head of UNMIK Administration in Mitrovica should provide the Internal Auditor with clear terms of reference, delegated authority, approved work plans and ensure reports are prepared after each audit engagement for effective audit services.

UNMIK accepted recommendation 1 and stated that action has been initiated to implement the recommendation. Recommendation 1 remains open pending receipt of copies of terms of reference, delegated authority and approved work plans.

Project management

The Inspection Department of UAM faced challenges enforcing construction standards and codes because this often resulted in tension in the region, and vendors for demolishing services feared retribution from the communities, particularly those involving minority communities. In 2010, there were 118 cases of illegal construction in north Mitrovica out of which 28 cases required demolition, though none was demolished. Management endeavored to resolve such cases through dialogue, therefore no recommendation was made.

Documentation retention

The Cadastre Department of UAM lacked adequate storage facilities for cadastre records, which were kept in box files in the office. Loss of cadastre records would present problems verifying ownership and authenticity of changes made to land parcels particularly for communities in north Mitrovica that did not have access to Mitrovica Municipality in the south, which maintains the cadastre database. Provision of archive and storage facilities would mitigate the risks of theft, loss or damage of records.

(2) The Head of Mitrovica Region should ensure that UNMIK Administration of Mitrovica implements a records archiving system and establishes a secure storage facility for cadastre

records.

UNMIK accepted recommendation 2 and stated that action is being initiated to upgrade the existing archiving and storage facility. Recommendation 2 remains open pending receipt of confirmation of upgraded archiving and storage facility.

ACKNOWLEDGEMENT

OIOS wishes to express its appreciation to Management and staff of UNMIK for the assistance and cooperation extended to the auditors during this assignment.

AUDIT RESULTS

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ANNEX I Status of recommendations

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of UNMIK Administration of Mitrovica (UAM) and the role of Municipal Representatives in northern Kosovo. Comments made by UNMIK are shown in *italics*.

II. AUDIT OBJECTIVE

2. The audit was conducted to assess the adequacy and effectiveness of UNMIK's risk management, control and governance processes in providing reasonable assurance regarding its effective management of UAM, and its formulation of adequate strategies to implement its mandate in northern Kosovo. The key controls tested for this purpose included those for: (a) risk management and strategic planning; (b) oversight mechanisms; (c) project management; and (d) documentation retention. For the purposes of this audit, OIOS defined these key controls as follows:

(a) Risk management and strategic planning - controls that are designed to provide reasonable assurance that risks relating to planning and implementing UNMIK mandate in northern Kosovo including management of UAM activities are identified and assessed, and that action is taken to mitigate or anticipate risks.

(b) Oversight mechanisms - controls that provide for supervision and evaluation (self and independent) of UAM activities to ensure that threats and opportunities are identified and appropriate response or action plans are drawn to minimize risks and take advantage of opportunities.

(c) Project management - controls that are designed to provide reasonable assurance that there is sufficient project management capacity in UAM to achieve goals and mandates.

(d) Documentation retention - controls that are designed to provide reasonable assurance that documentation retention policy and appropriate storage facilities exist to ensure that critical documentation relating to UAM activities are kept for future reference.

III. AUDIT SCOPE AND METHODOLOGY

3. OIOS conducted this audit from December 2010 to April 2011. The audit covered the period from 1 January 2009 to 31 December 2010 and included a review of: (a) UNMIK's strategy formulation and activity planning for mandate implementation in northern Kosovo; (b) role of Municipal Representatives (MRs) in northern Kosovo (Leposaviq/ć, Zvečan/Zvečan and Zubin Potok) vis-à-vis programme activity planning, monitoring and reporting; (c) UAM governance arrangements and operational role; and (d) UAM administrative activities, including structure, work allocation and internal procedures.

4. To gain a general understanding of the current practices, processes and activities of UAM and role of MRs, OIOS interviewed UNMIK Senior Management, Mitrovica Regional Head, UAM Head and department directors. OIOS also reviewed UNMIK regulations, terms of reference and other policy documents and management reports relating to management of UAM and the role of MRs. An activity-level risk assessment was conducted to identify and evaluate specific risk exposures of UNMIK and to determine whether key controls identified to mitigate such risks were operating as intended.

AUDIT RESULTS

5. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of written policies and procedures and compliance with them.

IV. OVERALL ASSESSMENT

6. In the opinion of OIOS, UNMIK's risk management, control and governance processes were **partially satisfactory** to provide reasonable assurance regarding effective management of UAM and formulation of adequate strategies to implement UNMIK mandate in Northern Kosovo. UNMIK had implemented an adequate risk management system and strategies were developed and adequately reflected in the work plans. However, the Mission's realization of its goals had been hampered by major challenges including the: (a) unwillingness of northern Kosovo municipal authorities (Leposaviq/ć, Zvečan/Zvečan and Zubin Potok) to cooperate with Kosovo institutions; and (b) varying strategic approaches for administering northern Kosovo including Pristina's Kosovo strategy for the north and the International Civilian Office's Martti Ahtisaari plan. OIOS recognizes that many of the challenges were beyond UNMIK's control and that the European Union was facilitating a dialogue between Pristina and Belgrade to resolve some key practical issues. UNMIK reports dialogue-related developments to the Secretary-General and the Security Council.

V. AUDIT RESULTS

A. Risk management and strategic planning

7. UNMIK developed strategies and work plans for northern Kosovo (Leposaviq/ć, Zvečan/Zvečan and Zubin Potok). Strategies included priorities identified in the Special Representative of the Secretary-General's compact; coordination strategies with other actors such as European Union Rule of Law Mission in Kosovo (EULEX) and Kosovo Force (KFOR); and the United Nations strategic framework activities jointly developed with the United Nations Kosovo Team¹. Management identified risks for northern Kosovo and indicated the mitigating controls and strategies, which included the role of MRs and dialogue at various political and community levels.

Multiple strategic approaches hampered effective mandate implementation strategies

8. UNMIK's strategic goal is "the promotion of security, stability and respect for human rights in Kosovo and in the region through engagement with all communities in Kosovo, as well as with Pristina and Belgrade, and with regional and international actors". The strategies for northern Kosovo focus on maintaining stability pending political resolution between Pristina and Belgrade of practical matters affecting both Albanians and Serbs in Kosovo. The strategies include promoting communication and reconciliation at the political level through diplomatic dialogue. At the community level, stability is maintained through monitoring, advising, mediation, facilitation and promotion of communication among community leaders. In addition, the Mission administers UAM pending creation of a new municipality in north Mitrovica. The Mission also coordinates with other actors such as EULEX and KFOR who provide security in the area.

9. The Mission however faces a number of challenges, including those not under the control of UNMIK, which hamper the effective implementation of the mandate and strategies for northern Kosovo. Some of the key challenges included the following:

¹ UN Agencies present in Kosovo include OHCHR, UNICEF, UNFPA, UNHCR, IOM, WHO, FAO, ILO, UNDP, UN-HABITAT, UNOPS, UNIFEM (part of UN WOMEN), UNV as well as other Non-resident Agencies, UNESCO, UNEP, UNCTAD, UNODC, and UNIDO. The IMF and WB are also members.

AUDIT RESULTS

(a) Existence of different and conflicting approaches and strategies for northern Kosovo, which results in failure to reach consensus or resolve issues and further deepens the divide as communities choose to align themselves with strategies that suit them. For instance, the Kosovo authorities have a Kosovo strategy for the north, which calls for the establishment of Pristina institutions in northern Kosovo. On the other hand, the former International Civilian Office is implementing the comprehensive status proposal of United Nations Special Envoy Martti Ahtisaari (the Ahtisaari Plan) which calls for the creation of a municipality of North Mitrovica with boundaries that do not coincide with those of UAM. The Ahtisaari Plan was not adopted by the Security Council. Serb communities in northern Kosovo are opposed to both the Kosovo strategy and the Ahtisaari Plan but accept the Security Council resolution 1244.

(b) Multiple administrative structures in Mitrovica do not facilitate the resolution of issues and hampered efforts to achieve integration of multi-ethnic communities. For example, Mitrovica Municipality under Kosovo authorities provides municipal services to the community south of the Ibër/Ibar River in Mitrovica. On the other hand, both UAM and a Serb parallel municipality that is not recognized by UNMIK provide municipal services to the communities north of the Ibër/Ibar River in Mitrovica.

(c) Municipal authorities in Leposaviq/ć, Zvečan/Zvečan and Zubin Potok passed resolutions not to recognize or cooperate with Kosovo authorities. They also boycotted the Kosovo consolidated budget for their respective municipalities, which made it difficult to integrate the communities in the region. In addition, the three municipal authorities passed resolutions not to cooperate with EULEX and one municipality resolved to discontinue cooperating with KFOR. This situation presented difficulties in coordinating and resolving security issues in the region. However, UNMIK continues to hold weekly and ad-hoc security coordination meetings with both KFOR and EULEX.

10. OIOS recognizes that these challenges are beyond UNMIK's control and that the European Union was facilitating a dialogue between Pristina and Belgrade to resolve some key practical issues. UNMIK Management explained that it will revise the current strategies or formulate new ones as and when the parties resolve the issues. Meanwhile, Management reports dialogue-related developments to the Secretary-General and the Security Council.

Municipal Representatives performed their activities in line with their respective terms of reference and UNMIK Regulations

11. Municipal Representatives (MRs) prepared and submitted daily and special reports to Mitrovica Regional Office (MRO) on the activities in their areas of responsibility including, among others: attendance at meetings; facilitation of communication, meetings with and movement of minorities; monitoring of projects; resolution of community problems reported or encountered; and analyses of mandate and security related developments. The MRO submitted similar reports to UNMIK Management concerning the activities in the region. Further, the MRO held ad hoc and scheduled daily and weekly meetings with MRs and stakeholders in the area. In turn, UNMIK Management formulated strategies and responses to reported activities. These activities were in line with the terms of reference for MRs and UNMIK Regulation 2007/30.

AUDIT RESULTS

B. Oversight mechanisms

Reorganization of UNMIK Administration of Mitrovica Advisory Board would improve efficiency and effectiveness

12. The Board was created in 2003 and had eight members comprising six Kosovo Serbs, one Bosniak and one Kosovo Albanian. The Special Representative of the Secretary-General appointed members of the Board and the composition had not changed since then. The Board was, among other things, required to provide advisory recommendations to the Head of UAM on the subject of authority and responsibility of UAM with special attention to delivery of municipal services to non-majority communities.

13. In exercising its responsibilities, the Board was supposed to meet at least monthly. From January 2006 to December 2010, the Board met 17 times, representing 28 per cent of expected minimum required 60 meetings over the period. Minutes for only 3 meetings out of 17 held were available, but there were no minutes for other meetings held. The Board lacked clear rules of procedure including the conduct and preparation of minutes of meetings. Management cited the political situation on the ground following Kosovo's declaration of independence in 2008 and discontinuation of payment of Board allowances from the Kosovo consolidated budget as factors for the Board's ineffective discharge of their responsibilities.

14. The Board's inability to discharge its responsibilities resulted in ineffective independent oversight of UAM activities, albeit in an advisory capacity. Consequently, UAM was subject to negative publicity with accusations of lack of transparency in its operations and bias in the provision of municipal services. UNMIK Management had began correcting the situation by drafting rules of procedures for the Board, reorganizing the Board including expanding membership from 8 to 16 and soliciting new names from stakeholders for appointment to the Board.

Clear terms of reference for the role of internal audit would add value to UNMIK Administration of Mitrovica's operations

15. The organizational structure for UAM provides for the post of Internal Auditor who should evaluate internal processes and provide reasonable assurance that internal controls are adequate and working effectively. The post was filled and although the incumbent had an audit manual for use during his work, there were no clear terms of reference or delegated authority to guide the performance of his duties. In addition, there were no work plans or reports of work done by the Internal Auditor. Consequently, UAM did not effectively utilize audit services to provide independent assurance of adequacy and effectiveness of controls in place, which would have added value to UAM operations.

Recommendation 1

(1) The Head of UNMIK Administration in Mitrovica should provide the Internal Auditor with clear terms of reference, delegated authority, approved work plans and ensure reports are prepared after each audit engagement for effective audit services.

16. *UNMIK accepted recommendation 1 and stated that action has been initiated to implement the recommendation.* Recommendation 1 remains open pending receipt of copies of terms of reference, delegated authority and approved work plans.

C. Project Management

Construction codes and standards were not always enforced

17. UAM departments were adequately staffed with qualified personnel. UAM has 8 departments and 123 staff (civil servants). Four UNMIK international staff oversaw UAM activities. The departments prepared annual work plans and major projects of the departments were approved by the Ministry of Finance in Pristina through the budget process. The UAM Head monitored work plan implementation through monthly management meetings and periodic reports. However, UAM faced challenges with enforcing construction standards and codes in the area.

18. The Inspection Department (ID) of UAM was responsible for inspecting communal services, environment and workplace safety, public infrastructure, and construction works, among others. ID performed its functions in accordance with laws stipulated in relevant UNMIK Regulations including laws on spatial planning, construction and environmental protection.

19. ID faced a number of challenges enforcing the standards and codes applicants are supposed to follow during construction because enforcing the standards was often politicized, particularly when minorities were involved, resulting in tension in the region. For example, in accordance with the standards and codes, illegal construction should be demolished. However, this was not always accomplished. In 2010, there were 118 cases of illegal construction in north Mitrovica out of which 28 cases required demolition, two cases resulted in court prosecution while the remaining cases required obtaining appropriate permits or remedial work to comply with building codes and standards.

20. Management explained that illegal constructions arose due to the unwillingness of the Mitrovica Municipality in the south and some individual applicants to recognize UAM jurisdiction in north Mitrovica. Applicants for construction claimed that the Mitrovica Municipality in the south granted construction permits but did not provide evidence of permits obtained. UAM was unable to procure demolition services because service providers feared retribution from the communities. Consequently, tenders for demolition services had gone unanswered and, as a result, none of the illegal structures had been demolished. To address these cases, Management engaged in dialogue with the authorities in Mitrovica Municipality in the south. In view of interventions in place, OIOS has not made a recommendation concerning these matters.

D. Documentation retention

Archiving and storage of cadastre records requires improvement

21. The Cadastre Department (CD) of UAM was responsible for supervising drawings and property evidence on the basis of authentic records and verifying ownership of land parcels. The CD worked closely with Mitrovica Municipality south of River Ibër/Ibar, which maintained the cadastre database.

22. The CD maintained files for each applicant, which contained important documentation for any changes to land parcels including application forms, approvals to subdivide the land, copies of plans, drawings of actual changes made to parcels of land, among others. However, the CD lacked adequate storage facilities as it had only two filing cabinets, which were full while the rest of the records were kept in box files on the floor in the office. Although cadastre records were supposed to be kept permanently, there was no records' archiving system in place leaving the records susceptible to theft, loss or damage by fire or water. Loss of cadastre case records would present problems in verifying ownership and authenticity of changes made to land parcels particularly for communities in north Mitrovica who process

AUDIT RESULTS

all cadastre formalities at UAM and do not have access to Mitrovica Municipality south of River Ibër/Ibar.

Recommendation 2

(2) The Head of Mitrovica Region should ensure that UNMIK Administration of Mitrovica implements a records archiving system and establishes a secure storage facility for cadastre records.

23. *UNMIK accepted recommendation 2 and stated that action is being initiated to upgrade the existing archiving and storage facility.* Recommendation 2 remains open pending receipt of confirmation of upgraded archiving and storage facility.

ANNEX I
STATUS OF RECOMMENDATIONS
Audit of management of UNMIK Administration of Mitrovica and the role of Municipal Representatives in northern Kosovo

Recom. no.	Recommendation	Risk category	Critical/ important	C/O¹	Actions needed to close recommendation	Implementation date²
1	The Head of UNMIK Administration in Mitrovica should provide the Internal Auditor with clear terms of reference, delegated authority, approved work plans, and ensure reports are prepared after each audit engagement for effective audit services.	Operational	Important	O	Receipt of copies of terms of reference; delegated authority; and approved work plans.	31 January 2012
2	The Head of Mitrovica Region should ensure that UNMIK Administration of Mitrovica implements a records archiving system and establishes a secure storage facility for cadastre records.	Operational	Important	O	Receipt of confirmation of upgraded archiving and storage facility.	31 January 2012