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

DATE: 19 January 2012

REFERENCE: IAD: 12-00035

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

Fatoumata

SUBJECT: **Assignment no. AA2011/250/05 – Audit of the UN-HABITAT Programme in Iraq**

OBJET:

Overall results relating to effective implementation of the UN-HABITAT programme in Iraq were partially satisfactory

1. Attached please find the final report on the above-mentioned audit.
2. Annex I shows the status of recommendations.
3. 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 quarterly for critical recommendations and annually for important recommendations.

cc: Ms. Aisa Kacyira-Kirabo, Deputy Executive Director, UN-HABITAT
Mr. Alioune Badiane, Director, Regional Office for Arab and African States, UN-HABITAT
Mr. Neil Reece Evans, Officer-in-Charge, Division of Management, UN-HABITAT
Mr. Mohamed Robleh, Audit Focal Point, 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
Mr. Moses Bamuwanye, Executive Secretary, IAAC
Mr. Zachary Ikiara, Chief, Oversight Support Unit, DM
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Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the UN-HABITAT Programme
in Iraq

Overall results relating to effective
implementation of the UN-HABITAT
programme in Iraq were partially satisfactory

19 January 2012
Assignment No. AA2011/250/05

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AUDIT REPORT

Audit of the UN-HABITAT Programme in Iraq

BACKGROUND

1. The United Nations Human Settlements Programme (UN-HABITAT) programme in Iraq supports the implementation of the HABITAT Agenda in Iraq and the goals of the Millennium Declaration on improving the lives of slum dwellers and improving access to water and sanitation. The programmatic objectives in Iraq are focused on four areas: (a) advocacy, monitoring and partnerships; (b) participatory urban planning, management and governance; (c) pro-poor land and housing; and (d) environmentally sound basic urban infrastructure and services. From 2004 to 2011, UN-HABITAT Iraq Programme completed 20 projects in priority areas, with budgets totaling \$80.7 million. As of May 2011, there were eleven on-going projects with budgets totaling \$19.7 million. The Programme was entirely funded through non-core resources.

2. UN-HABITAT manages the Iraq Programme at four levels: (a) the UN-HABITAT Iraq Programme Office for programme management, technical oversight, and administration; (b) Baghdad and Erbil offices for in-country implementation; (c) field offices in Basra, Hilla, Missan, Nassiriya, Salahuddin, Thi-Qar, and Sulaymaniyah for local liaison and implementation; and (d) UN-HABITAT Headquarters for operational back-up and technical support. The UN-HABITAT programme in Iraq has five international and 19 national staff posts. Two of the international posts were vacant as of 1 July 2011.

3. Comments provided by UN-HABITAT are incorporated in *italics*.

OBJECTIVE AND SCOPE

4. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.

5. The audit of the UN-HABITAT Programme in Iraq was conducted to assess the adequacy and effectiveness of UN-HABITAT's governance, risk management and control processes in providing reasonable assurance regarding the effective implementation of the UN-HABITAT programme in Iraq.

6. The audit was requested by UN-HABITAT because of its significance in terms of budget size for the programme.

7. The key controls tested for the audit were: (a) programme and financial management reporting; (b) fund raising; (c) security management systems; (d) regulatory framework; and (e) delegation of authority. For the purpose of this audit, OIOS defined these key controls as follows:

- (a) **Programme and financial management reporting** - controls that are designed to provide reasonable assurance that a system exists to report programme performance, including its financial performance, timely, accurately and completely;

(b) **Fund raising** - controls that are designed to provide reasonable assurance that the Organization has fund raising capability to augment financial resources during budget crisis to ensure that essential functions and high-priority programmes continue to run;

(c) **Security management systems** - controls that are designed to provide reasonable assurance that security management systems are commensurate to the safety and security risks. This includes compliance with Minimum Operating Security Standards (MOSS);

(d) **Regulatory framework** - controls that are designed to provide reasonable assurance that policies and procedures exist to guide the operations of the programme in finance, procurement, and property management and inventory; and

(e) **Delegation of authority** - controls that are designed to provide reasonable assurance that authority for essential functions has been delegated formally and in accordance with relevant regulations and rules.

8. The key controls were assessed for the control objectives shown in Table 1.

9. OIOS conducted this audit from 1 July 2011 to 31 August 2011. The audit covered the period from 1 January 2009 to 31 March 2011.

10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to assess their effectiveness.

AUDIT RESULTS

11. In OIOS opinion, UN-HABITAT's governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the effective implementation of the UN-HABITAT programme in Iraq.

12. The overall rating is based on the assessment of key controls presented in Table 1. UN-HABITAT had an effective programme and financial reporting mechanism in place and exercised adequate controls over payments to contractors. Although a comprehensive fund raising strategy for Iraq was not finalized and updated, resources were being mobilized to ensure continued funding of high priority activities. However, UN-HABITAT did not fully comply with MOSS in order to safeguard staff and property.

Table 1: Assessment of key controls

	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations, and rules
Effective implementation of the UN-HABITAT programme in Iraq	(a) Programme and financial management reporting	Satisfactory	Satisfactory	Not applicable	Not applicable
	(b) Fund raising	Satisfactory	Not applicable	Not applicable	Not applicable
	(c) Security management systems	Not applicable	Not applicable	Partially satisfactory	Partially satisfactory
	(d) Regulatory framework	Not applicable	Satisfactory	Satisfactory	Satisfactory
	(e) Delegation of authority	Not applicable	Not applicable	Not applicable	Satisfactory

Programme and financial management reporting

13. UN-HABITAT had a reliable mechanism in place for reporting programme implementation to stakeholders. Programme performance was reported timely and in accordance with relevant project documents. UN-HABITAT prepared reports for stakeholders on a quarterly and annual basis.

Fund raising

14. Although there was no up-to-date comprehensive fund raising strategy in place, UN-HABITAT management stated that they were mobilizing financial resources to ensure that high priority programmes continue to run beyond 31 December 2011 when projects cease to be funded by the Iraq Trust Fund. Notably, on 31 May 2011, the Executive Director of UN-HABITAT signed a Memorandum of Understanding with the Ministry of Construction and Housing of Iraq to provide a framework of cooperation and to facilitate collaboration between the Parties in the projects relating to Iraq's National Housing Policy. UN-HABITAT stated that on 14 November 2011, the Government confirmed allocation of \$250 million in the 2012 budget to be channeled through partners that included UN-HABITAT.

Security management systems

15. The UN-HABITAT Iraq Programme Office premises did not fully comply with MOSS. The building is vulnerable to external attacks and was not constructed to withstand major earthquakes. Therefore the Department of Safety and Security (DSS) recommended, in its Security Risk Assessment Report of March 2011, that UN-HABITAT relocate the offices to a safer building and also proposed interim risk mitigation measures. Non-implementation of DSS recommendations could result in bodily harm to staff or loss of life in an event of an attack or an emergency.

(1) The Executive Director of UN-HABITAT should relocate office premises to a safer building and implement security risk mitigation measures recommended by the Department of Safety and Security.

UN-HABITAT accepted recommendation 1 and stated that it had corrected most weaknesses raised by DSS in its assessment of March 2011. Therefore, UN-HABITAT will request DSS for a more current comprehensive security assessment and will take corrective action upon receipt of the same. Recommendation 1 remains open pending receipt of the outcome of a new comprehensive security assessment to be undertaken by DSS.

Regulatory framework

16. Payments to the contractors were accurate, authorized and timely. There were adequate controls in the payment process for construction projects in Iraq that ensured that payments were done in accordance with terms of contract, were based on documented review of work done in accordance with bill of quantities, were verified by project managers, certified by the Programme Management Officer (PMO), and approved by the Programme Manager.

Delegation of authority

17. In accordance with the delegation of authority provided to Programme Officers/Officers-in-Charge, programme managers utilized and prepared monthly procurement reports to UN-HABITAT Headquarters on the utilization of the delegation of authority.

ACKNOWLEDGEMENT

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

Ms. Fatoumata Ndiaye, Director
Internal Audit Division, OIOS

STATUS OF AUDIT RECOMMENDATIONS

Audit of UN-HABITAT Programme in Iraq

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The Executive Director of UN-HABITAT should relocate office premises to a safer building and implement security risk mitigation measures recommended by the Department of Safety and Security.	Compliance	Important	O	Receipt of the outcome of a new comprehensive security assessment to be undertaken by DSS.	31 December 2012

1. C = closed, O = open

2. Date provided by UN-HABITAT in response to recommendations.
