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# Office of Internal Oversight Services Internal Audit Division II

AUD: UN-HABITAT ( 006/2006 ) 22 May 2006

TO: Mrs. Anna Tibaijuka, Executive Director

**UN-HABITAT** 

FROM: Ms. Corazon Chavez, Acting Director

Internal Audit Division II, Office of Internal Oversight Services (OIOS)

SUBJECT: Audit of UN-HABITAT Slum Upgrading Facility (AA2005/250/01)

- 1. I am pleased to submit the final report on the audit of UN-HABITAT Slum Upgrading Facility (SUF), which was conducted in Nairobi, Kenya between December 2005 and March 2006, by Ms. Jaydene Kana. A draft of the report was shared with the Acting Director, Human Settlements Financing Division, and the Director, Programme Support Division, in April 2006, whose comments, which were received in May 2006, are reflected in the attached final report, in italics.
- 2. I am pleased to note that most of the audit recommendations contained in this final report have been accepted and that UN-HABITAT has initiated their implementation. The table in paragraph 42 of the report identifies those recommendations, which require further action to be closed. I wish to draw your attention to recommendations 1, 5, and 7, which OIOS considers to be of critical importance.
- 3. I would appreciate if you could provide Mr C. F. Bagot with an update on the status of implementation of the audit recommendations <u>not later than 30 November 2006</u>. This will facilitate the preparation of the twice-yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B.
- 4. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey form and return it to me.
- 5. I would like to take this opportunity to thank you and your staff for the assistance and cooperation extended to the audit team.

Attachment: final report and client satisfaction survey form

Cc: Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors (by e-mail)

Mr. A. King, Director, Programme Support Division, UN-HABITAT (by e-mail)

Mr. C Williams, Acting Director, Human Settlements Financing Division, UN-

HABITAT (by e-mail)

Mr. M. Tapio, Programme Officer, OUSG, OIOS (by e-mail)

Mr. C. F. Bagot, Chief, Nairobi Audit Section, IAD II, OIOS (by e-mail)

Ms. J. Kana, Auditor-in-Charge, IAD II, OIOS (by e-mail)

Ms. J. Ogira, Auditing Assistant, Nairobi Audit Section, IAD II, OIOS (by e-mail)

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# Office of Internal Oversight Services Internal Audit Division II

# **Audit Report**

Audit of UN-HABITAT Slum Upgrading Facility (AA2005/250/01)

Report date: 22 May 2006

Auditor: Jaydene Kana

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# Office of Internal Oversight Services Internal Audit Division II

# Audit of UN-HABITAT Slum Upgrading Facility (AA2005/250/01)

## **EXECUTIVE SUMMARY**

Between December 2005 and March 2006, OIOS conducted an audit of UN-HABITAT's Slum Upgrading Facility (SUF) in Nairobi, Kenya. The audit covered activities with a target budget of approximately \$30 million.

The overall conclusion was that project activities were being administered in accordance with United Nations Regulations and Rules and current arrangements for administrative support to new projects could be enhanced by strengthening the role of UN-HABITAT Programme Support Division (PSD) for oversight and guidance. OIOS is pleased to note that at the time of issuing this final report, UN-HABITAT had initiated action to address most of the issues raised.

## Governance

The governance structure for projects could be strengthened by the creation of policies and procedures for establishing and operating consultative boards.

### **Mandate, Mission and Structure**

SUF activities were in accordance with its mandate and the organisational structure and functions were supported by clear roles and responsibilities.

Communication and marketing of projects such as SUF that impact major United Nations goals, in this context Millennium Development Goals, could be improved by creating project mission statements.

## Memoranda of Understanding, Agreements and Contracts with Third Parties

UN-HABITAT has guidance dealing with the creation of Memoranda of Understanding, Agreements and Contracts with Third Parties. In the case of SUF some standard clauses were missing in respect of the three agreements signed with the Cities Alliance, the United Kingdom of Great Britain and Northern Ireland acting through the Department for International Development (DFID) and the Swedish International Development Cooperation Agency (SIDA). OIOS was pleased to note that at the time of issuing this draft, UN-HABITAT had initiated action to address this issue at an organisational level and OIOS has only recommended action to amend the agreement with Cities Alliance, which was the only agreement still in force at the time of the audit.

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## I. INTRODUCTION

- 1. This report discusses the results of an OIOS audit of UN-HABITAT Slum Upgrading Facility (SUF), which was carried out between December 2005 and March 2006 in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 2. SUF is a project executed by UN-HABITAT Sub-Programme 4 Human Settlements Financing Division (HSFD) in conjunction with the Cities Alliance, the collaborative initiative of the World Bank Group, UN-HABITAT, United Cities and Local Government and other organisations set up to advance strategies to improve conditions of cities in the developing countries through city development strategies and city-wide slum upgrading.
- 3. According to the SUF Operations Manual, dated 21 April 2005:
  - a) the central objective of SUF is to assist developing countries to mobilize local domestic capital for their own slum upgrading activities by facilitating links among local actors and by packaging the financial, technical and political elements of development projects to attract such investment.
  - b) the overall goal of the SUF is to contribute significantly to the elimination of poverty in urban areas with particular reference to Millennium Development Goal 7 Target 11: "by 2020 to have improved the lives of at least 100 million slum dwellers".
- 4. SUF comprises a Design Phase and a Pilot Phase:
  - a) The Design Phase, which was ongoing at the time of the audit, has the objective of recruiting a design team to undertake a number of activities, including fund raising, establishment of inter institutional relations among key SUF partners and identification of prospective field pilots in Sub-Saharan Africa, South Asia and South East Asia. The United Kingdom of Great Britain and Northern Ireland acting through the Department for International Development (DFID) and the Swedish International Development Cooperation Agency (SIDA) have pledged \$1.8 million for the Design Phase project, of which approximately \$1.55 million had been received at the time of the audit.
  - b) The Pilot Phase which was also ongoing at the time of the audit, has the objective of supporting the upgrade of the field pilots identified in cities in West Africa, East Africa, South Asia and South East Asia in the Design Phase.
- 5. UN-HABITAT has set the capitalization of the SUF for the three-year pilot phase at \$30 million. In June 2004, DFID pledged \$10 million for the Pilot Phase, of which approximately \$400,000 had been received at the time of the audit.
- 6. As SUF falls under HSFD, the Acting Director, HSFD, D-2, retains responsibility for the SUF and its activities and is supported by one Professional staff member, P-3.
- 7. A draft of this report was shared with the Acting Director, Human Settlements Financing Division, and the Director, Programme Support Division on 6 April 2006, whose comments, which were received on 15 May 2006 have been reflected in this final report, in italics.

8. UN-HABITAT has accepted most of the recommendations made and provided a timeframe of March 2007 for implementation of those recommendations.

### II. AUDIT OBJECTIVES

- 9. The overall objective of the audit was to advise the Executive Director, UN-HABITAT on whether SUF was operating within the terms of its delegated authority and mandate and within the United Nations Regulations and Rules. This involved:
  - (a) Reviewing whether the governance framework provided SUF with adequate guidance and support for the execution of its responsibilities;
  - (b) Assessing whether SUF management had established adequate mechanisms to ensure that it understood and was only executing activities in support of its mandate;
  - (c) Reviewing the internal control systems for managing the SUF structure, projects and resources; and
  - (d) Assessing compliance with United Nations Regulations and Rules and other circulars.

### III. AUDIT SCOPE AND METHODOLOGY

10. The audit focussed on activities in the period January 2003 to December 2005 and involved interviewing staff and reviewing available documents.

### IV. AUDIT FINDINGS AND RECOMMENDATIONS

## A. Governance

## (a) SUF Consultative Board

- 11. OIOS was pleased to note the establishment of a consultative board to advise the Governing Council, via the Executive Director, on SUF activities, and the presence of documentation setting out the membership and operation of the board. OIOS was concerned that this documentation did not address criteria for membership and how the costs of the consultative board would be met. Furthermore, the relationship between the consultative board with other parts of UN-HABITAT and its role were also not clear. *UN-HABITAT commented that the SUF Operation Manual (see annex four -i), the SUF Project Submission to DFID and SIDA (ii), and the SUF Proposal Submitted to Cities Alliance by DFID, SIDA and UN-HABITAT (iii) make clear reference to the criteria of membership and the role of the board. In addition, the SUF Annual Implementation and Budget for 2006-2008 approved by the donors makes explicit reference to how the costs of the consultative board will be met. OIOS thanks UN-HABITAT for the clarification and whilst not raising any recommendation on this issue, suggests that UN-HABITAT consider consolidating all matters pertaining to the operation of the SUF Consultative Board in one document.*
- 12. UN-HABITAT has no policy at the organisational level dealing with the establishment

and operation of consultative boards. Such a policy is required to assist Divisions of UN-HABITAT in identifying where such bodies might be useful and how they should be set up and operated.

## **Recommendations:**

To ensure that consultative boards are only created when required and to assist UN-HABITAT Divisions in establishing and operating consultative boards in a uniform manner, UN-HABITAT should create policies and procedures dealing with when a consultative board is required, formulating the goals and objectives, how to establish, criteria for membership, arrangements for funding, terms of reference explaining linkage with UN-HABITAT secretariat, and rules of operations (Rec. 01).

13. UN-HABITAT commented that it accepted the recommendation and would implement it by December 2006. OIOS thanks UN-HABITAT and will close the recommendation upon receipt of a copy of the policies and procedures dealing with when a consultative board is required, formulating the goals and objectives, how to establish, criteria for membership, arrangements for funding, terms of reference explaining linkage with UN-HABITAT secretariat, and rules of operations.

UN-HABITAT should review and amend the documentation of the Slum Upgrading Facility Consultative Board to include the relationship between the consultative board with other parts of UN-HABITAT and a definition of its role (Rec. 02).

14. *UN-HABITAT commented that it accepted the recommendation and it would implement it by December 2006.* OIOS thanks UN-HABITAT and will close the recommendation upon receipt of the document detailing the relationship between the consultative board and other parts of UN-HABITAT, and a definition of its role.

## **B.** Mandate and Mission

## (a) Mandate

15. The activities of SUF are governed by General Assembly Resolution 56/206 and Governing Council Resolution 20/11, dealing with mobilising resources for affordable housing. OIOS confirmed that the activities of SUF were in line with the UN-HABITAT and SUF mandates.

### (b) Mission

16. UN-HABITAT advised OIOS that it is not a requirement to develop mission statements for projects. OIOS is of the opinion that there may be value in developing mission statements for projects such as SUF, to facilitate in communicating the intentions, priorities and values of the project to internal and external parties. The mission statement also serves as a building block in formulating the overall strategy of SUF. UN-HABITAT commented that although multiple mission statements may dilute the overall mission statement of the United Nations Human Settlements Programme, setting into motion a process whereby every entity within UN-HABITAT has a mission statement, there may be a added value in developing

policy and procedures on project mission statements to improve the communication and understanding of large scale projects.

## **Recommendation:**

To facilitate communication and better understanding of large scale projects, such as the UN-HABITAT Slum Upgrading Facility, UN-HABITAT should consider developing policy and procedures on project mission statements (Rec. 03).

17. UN-HABITAT commented that it accepted the recommendation and will implement it by March 2007. OIOS thanks UN-HABITAT and will close the recommendation upon receipt of a copy of the policy and procedures on project mission statements.

# C. Organisational Structure, Functions and Reporting Lines

18, Sub-Programme 4 (SP4) – Human Settlements Financing Division (HSFD) was correctly established under the UN-HABITAT mandate and is shown as part of the authorised organisational structure (ST/SGB/2002/14 - Organisation of the secretariat of the United Nations Human Settlements Programme dated 22 November 2002). SUF is a project within SP4, and OIOS was pleased to see that the structure of the project was supported by a definition of roles and responsibilities for the different parts of the structure and the Acting Director, HSFD as the substantive officer for HSFD, had a statement of delegated authority in respect of the SUF activities.

# D. Memoranda of Understanding, Agreements and Contracts with Other Organisations

## (a) Creation of Agreements

- 19. UN-HABITAT signed three agreements with Cities Alliance, United Kingdom of Great Britain and Northern Ireland acting through the Department for International Development (DFID), and Swedish International Development cooperation Agency (SIDA) for the Design and Pilot Phase projects. Whilst UN-HABITAT has tools and guidelines to assist staff in the creation of such agreements, there was no evidence that these had been used for these agreements. Concerned that none of the agreements was in a standard format, OIOS compared the agreements signed by other organisations and noted that the following clauses were missing from some of the agreements, which OIOS believes should have been present (Refer to Table 1 – Comparison of agreements signed by UN-HABITAT on behalf of Slum Upgrading Facility and agreements signed by other organisations). The agreements with DFID and SIDA have now lapsed and OIOS is not therefore proposing any action. With respect to Cities Alliance, UN-HABITAT explained, and OIOS agreed, that some of the issues are covered in the framework agreement between Cities Alliance and UN-HABITAT and the relationship between the two documents is clear. However, both documents are missing some clauses which OIOS believes should be present (Table 1).
- 20. UN-HABITAT shares OIOS's concerns with respect to a need to strengthen

existing guidance on agreements and has contacted UNON and UNEP to establish a working group to look at how to strengthen agreements signed. OIOS is pleased to note this initiative and is not raising any recommendation on the general issue.

Table 1: Comparison of agreements signed by UN-HABITAT of behalf of Slum Upgrading Facility and agreements signed by other organisations

Clauses expected in the agreements signed	Cities Alliance and Framework Agreement	DFID	SIDA
Responsibility for legal claims	X	$\sqrt{}$	X
Obligations and responsibilities of United Nations personnel	X	X	X
Participation of other organisations	V	X	X
Inspection and external audit	$\sqrt{}$	X	X
Assignment and sub-contracting	X	X	X
Ownership and use of assets purchased by non-UN funding	X	X	X
Procurement of goods and services	X	X	V
Compliance with law in the various locations where the Project is undertaken	X	X	X
Confidentiality	X	X	X
Privileges and immunities	X	X	X
Force majeure and other changes in condition	X	X	X
Amicable settlement	X	X	X
Arbitration	X	X	X
Early termination	X	X	√
Compliance with UN-HABITAT rules	X	V	√

## **Recommendation:**

To ensure UN-HABITAT has adequate control over the execution of the agreements signed for the Slum Upgrading Facility, UN-HABITAT should review and consider strengthening the existing agreements with Cities Alliance (Rec. 04).

21. *UN-HABITAT commented that it accepted the recommendation and will implement it by March 2007.* OIOS thanks UN-HABITAT and will close the recommendation upon receipt and review of a copy of the revised agreements with Cities Alliance.

# E. Project Administration

22. UN-HABITAT has information on its website to inform staff of the regulations

and rules they should refer to in the daily administration of a project. Whilst the information is available, it does not form part of a formal oversight mechanism involving PSD review of projects to ensure that they are acting in accordance with regulations and rules, and that there is a dedicated resource to assist projects in resolving administrative and substantive queries. Consequently, SUF staff could not demonstrate that they were fully aware of and that they could make effective use of guidance that was available. OIOS had to seek the assistance of PSD to answer many of the issues raised in the course of the audit.

## **Recommendation:**

To strengthen existing arrangements for oversight of new projects, UN-HABITAT should strengthen the functions of Programme Support Division (PSD) for project oversight, which might include a review of the resources PSD would need to advise new projects in handling administrative and substantive queries (Rec. 05).

23. UN-HABITAT commented that it accepted the recommendation and will implement it by March 2007. OIOS thanks UN-HABITAT and will close the recommendation upon receipt of a copy of the results of the review into strengthening the functions of PSD.

# F. Work Programming, Planning, Monitoring and Reporting

24. PSD had ensured that all SUF objectives, expected accomplishments and outputs, with approved budgets were included in the 2006-2007 Programme of Work, where all SUF activities have been approved by the UN-HABITAT Governing Council and the General Assembly.

## G. Human Resources Management

## (a) Job Descriptions and Classifications

25. OIOS was pleased to note that all SUF staff had job descriptions / terms of references which had been appropriately classified by UNON and as such, no recommendation is raised.

## (b) Travel

26. From January 2005 to January 2006, SUF staff members and consultants undertook travel at a cost of approximately \$189,000. OIOS reviewed 11 travel claims submitted by SUF staff members and consultants against ST/AI/2000/20 (Official Travel dated 22 December 2000). OIOS noted no problems except that on four occasions, travel claims had not been submitted within two calendar weeks after completion of travel as required by paragraph 11.1 of ST/AI/2000/20 (Official Travel dated 22 December 2000).

## (c) Consultants and Individual Contracts

27. From October 2004 to January 2006, SUF used eight consultant contracts and paid fees totalling approximately \$277,000. OIOS reviewed all agreements and noted no problems

except a lack of documentation to assess compliance with ST/AI/1999/7 (Consultants and Individual Contractors dated 25 August 1999) with respect to:

- a) Selection of candidates from the SUF and HRMS roster;
- b) Confirmation of the credentials of selected candidates; and
- c) Geographical and gender balance in selecting candidates.

## **Recommendation:**

To ensure compliance with ST/AI/1999/7 (Consultants and Individual Contractors dated 25 August 1999), the SUF should maintain complete documentation related to each consultant contract, including the selection of candidates from the SUF and HRMS roster, confirmation of selected candidates credentials and geographical and gender balance in selection (Rec. 06).

- 28. UN-HABITAT commented that it rejected component (a) of the recommendation relating to selection of candidates from the SUF and HRMS roster. UN-HABITAT stated that SUF utilised the roster of HRMS consultants when considering prospective candidates to serve as consultants. OIOS thanks UN-HABITAT for the clarification and will close the recommendation once documentation is received confirming that the roster was used.
- 29. UN-HABITAT commented that it accepted component (b) of the recommendation referring to confirmation of the credentials of selected candidates and that SUF will work more closely with HRMS to ensure this process is carried out as appropriate, which will be implemented immediately. OIOS thanks UN-HABITAT and will close the recommendation upon receipt of a copy of the procedures developed to ensure completeness of documentation on file to support that recruitment has been done in compliance with ST/AI/1999/7.
- 30. UN-HABITAT commented that it rejected component (c) of the recommendation relating to geographical and gender balance in selecting candidates. UN-HABITAT stated that SUF consultants hired to date reflect geographical and gender balance and will continue to do so in the future. OIOS thanks UN-HABITAT for the clarification but is unable to close the recommendation without evidence that these factors were considered.

## H. Financial Management

## (a) Funding

- 31. DFID and the SIDA pledged \$1.8 million for the SUF Design Phase, of which approximately \$1.5 million had been received at the time of the audit.
- 32. UN-HABITAT has set the capitalization of the SUF for the three-year pilot phase at \$30 million. In June 2004, DFID pledged \$10 million for the Pilot Phase, of which approximately \$400,000 had been received at the time of the audit.
- 33. UN-HABITAT has undertaken work to encourage donor funding for SUF. However, the information provided to OIOS during the audit highlights that the SUF is heavily reliant on three donors, and a strategy to widen the donor base had not yet been developed. Given that SUF plays a vital role in the achievement of UN-Millennium Development targets, OIOS believes that it is essential that the donor base be widened.

## **Recommendation:**

To broaden the donor base with respect to funding, Slum Upgrading Facility in consultation with UN-HABITAT, should formulate a fundraising strategy for seeking additional donors to ensure there is no gap in funding (Rec. 07).

34. UN-HABITAT commented that it accepted the recommendation and will implement it by March 2007 as a component of the larger resource mobilization strategy for UN-HABITAT. OIOS thanks UN-HABITAT and will close the recommendation once upon receipt of a copy of the fundraising strategy for seeking additional donors to ensure there is no gap in funding.

# (b) Certifying, Approving and Authorising Functions

35. OIOS noted that the Acting Director, HSFD is the authorising officer, the Programme Management Officer, SUF is the certifying officer and UNON acts as the approving officer in respect of the SUF activities and decisions, hence the delegation of authority is clear and as such, no recommendation is raised.

### I. Procurement

## (a) SUF Pilot Team

36. Although several factors have resulted in a delay in awarding the SUF Pilot Team contract, OIOS was pleased to note that SUF has carried out tender process in close collaboration with UNON Procurement, Travel and Shipping Section (PTSS) and in accordance with ST/SGB/2003/7 (Financial Regulations and Rules of the United Nations dated 09 May 2003) and the United Nations Procurement Manual dated January 2004.

## (b) Furniture and Supplies

37. SUF undertook 13 orders for furniture and supplies from 2004 to January 2006 worth approximately US\$ 23,000. OIOS sampled three of these orders and was pleased to note that the SUF arrangements in respect of these procured items were in accordance with ST/SGB/2003/7 (Financial Regulations and Rules of the United Nations dated 09 May 2003) and the United Nations Procurement Manual dated January 2004.

## J. Asset and Inventory Management

38. OIOS are pleased to note that the SUF has a system in place, with the assistance of UNON PTSS, to maintain and update its asset and inventory records, monitor the movement of its property, dispose of obsolete assets or inventory and conduct periodic physical stocktakes in accordance with ST/AI/2003/5 (Property management and inventory control at the United Nations Headquarters dated 19 May 2003).

# K. Information Technology (IT) Management

39. Although SUF advised that an assessment of IT equipment and resource requirements had been undertaken in consultation with UN-HABITAT Information Services Section (ISS), no documentation was available for OIOS to review at the time

of the audit.

## **Recommendation:**

To ensure that the Information Technology (IT) requirements of the Slum Upgrading Facility (SUF) are addressed, UN-HABITAT should review and update the assessment carried out and submit a report detailing the SUF IT requirements to the Deputy Executive Director for her consideration (Rec. 08).

40. *UN-HABITAT commented that it accepted the recommendation and will implement it by December 2006.* OIOS thanks UN-HABITAT and will close the recommendation upon receipt of a copy of the report to the Deputy Executive Director detailing the SUF IT requirements.

# V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

41. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Recommendation No.	Action Required
Rec. 01	Receipt of a copy of the policies and procedures dealing with when a consultative board is required, formulating the goals and objectives, how to establish, criteria for membership, arrangements for funding, terms of reference explaining linkage with UN-HABITAT secretariat, and rules of operations
Rec. 02	Receipt of the document detailing the relationship between the consultative board and other parts of UN-HABITAT, and a definition of its role.
Rec. 03	Receipt of a copy of the policy and procedures on project mission statements.
Rec. 04	Receipt and review of a copy of the revised agreements with Cities Alliance
Rec. 05	Receipt of a copy of the results of the review into strengthening the functions of PSD.
Rec. 06	Receipt of documentation confirming:  (a) use of the roster in the selection of candidates from the SUF and HRMS roster.  (c) consideration was given to the geographical and gender representation in the selection of candidates.  Receipt of a copy of the procedures developed to ensure completeness of documentation on file to support that recruitment has been done in compliance with ST/AI/1999/7
Rec. 07	Receipt of a copy of the fundraising strategy for seeking

	additional donors to ensure there is no gap in funding.
Rec. 08	Receipt of a copy of the report to the Deputy Executive
	Director detailing the SUF IT requirements.

## VI. ACKNOWLEDGEMENT

42. I wish to express my appreciation for the assistance and cooperation extended to the audit team by the management and staff of SUF and UN-HABITAT

Ms. Corazon Chavez, Acting Director Internal Audit Division II Office of Internal Oversight Services