OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2017/028

Audit of the United Nations Human Settlements Programme Housing and Slum Upgrading subprogramme

Management of the subprogramme could be strengthened in the areas of resource mobilization, evaluation and internal reporting

27 April 2017
Assignment No. AA2016/250/02

Audit of the United Nations Human Settlements Programme
Housing and Slum Upgrading subprogramme

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the Housing and Slum Upgrading (HSUP) subprogramme in the United Nations Human Settlements Programme (UN-Habitat). The audit covered the period from January 2014 to September 2016 and included a review of: (a) project strategy and resource mobilization; (b) project approval and performance monitoring; and (c) project reporting and evaluation.

UN-Habitat had developed internal strategies for the HSUP subprogramme to complement the Global Housing Strategy and implement the Participatory Slum Upgrading Programme. The subprogramme implemented projects that contributed towards expected accomplishments. However, management of the subprogramme could be strengthened in the areas of resource mobilization, evaluation and internal reporting.

OIOS made three recommendations. To address issues identified in the audit, UN-Habitat needed to:

- Quantify the resource mobilization targets for the HSUP subprogramme and monitor the results periodically;

- Ensure that projects of the HSUP subprogramme properly budget for evaluation in accordance with the evaluation policy; and

- Establish an internal reporting framework to track expenditure against the HSUP subprogramme's project budgets.

UN-Habitat accepted the recommendations and has initiated action to implement them.

CONTENTS

Audit of the United Nations Human Settlements Programme
Housing and Slum Upgrading subprogramme

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-Habitat) Housing and Slum Upgrading (HSUP) subprogramme.

2.   UN-Habitat is mandated to promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all. At the time of audit, the mandate of UN-Habitat derived from the Habitat Agenda, adopted by the United Nations Conference on Human Settlements (Habitat II) in Istanbul, Turkey, in 1996. (The Habitat III conference held in Quito, Ecuador in October 2016 adopted a new mandate for UN-Habitat). The twin goals of the Habitat Agenda were adequate shelter for all and sustainable human settlements development in an urbanizing world.

3.   HSUP is one of the seven cross-cutting thematic priorities outlined in UN-Habitat's six year strategic plan 2014-2019. The objective of the subprogramme is to improve access to sustainable adequate housing, improve the standard of living in slums and curb the growth of new slums in an inclusive manner.

4.   UN-Habitat is expected, through HSUP and together with a wide range of partners, to focus on: (a) improved housing policies, strategies or programmes in line with the principles of the UN-Habitat Global Housing Strategy and right to adequate housing; (b) improved slum upgrading and prevention policies, strategies or programmes; and (c) enhanced capacity of slum communities to advocate on their own behalf and partner with national and local authorities implementing policies or programmes on access to adequate housing and improved standard of living in slums.

5.   The Housing and Slum Upgrading Branch (HSUB) had the responsibility for coordinating the subprogramme through two units, namely, the Housing Unit and the Slum Upgrading Unit. According to the biennial work programme and budget for 2014-2015, the subprogramme had a budget of $61.8 million comprising $54.7 million for non-post costs and $7.1 million for post-related costs. Eighty-five per cent of the $61.8 million was funded from the technical corporation fund, while the remaining 15 per cent was funded from the foundation special purpose fund, foundation general purpose fund and the regular budget. The 2016-2017 biennium budget of $88.8 million comprised of $81.4 million for non-post costs and $7.4 million for post-related costs with 87.5 per cent funded from the technical corporation fund and the balance from foundation special purpose, foundation general purpose and regular budget funds. HSUB had 11 staff members and six consultants in 2014-2015 and in October 2016, the number of consultants had increased to eight.

II.   AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6.   The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective management of the HSUP subprogramme in UN-Habitat.

7.   This audit was included in the OIOS 2016 risk-based work plan due to the risk that potential weaknesses in programme implementation may adversely affect the attainment of UN-Habitat's goals and objectives.

8.   OIOS conducted this audit from October to December 2016. The audit covered the period from January 2014 to September 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks relating to the HSUP subprogramme which included: (a) project strategy and resource mobilization; (b) project approval and performance monitoring; and (c) project reporting and evaluation. The audit focused on a sample of projects implemented by HSUB in Nairobi and regional offices. The audit included a field visit to slum upgrading projects in Yaoundé, Cameroon.

9.   The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) judgmental sample testing.

III.   OVERALL CONCLUSION

10.   UN-Habitat had developed internal strategies for the HSUP subprogramme to complement the Global Housing Strategy and implement the Participatory Slum Upgrading Programme (PSUP). The subprogramme implemented projects that contributed towards expected accomplishments. However, there was a need to strengthen the subprogramme by: (i) quantifying the resource mobilization targets for the subprogramme and monitoring the results periodically; (ii) ensuring that projects of the HSUP subprogramme properly budget for evaluation in accordance with the evaluation policy; and (iii) establishing an internal reporting framework to track expenditure against the subprogramme project budgets.

IV.   AUDIT RESULTS

A.   Project strategy and resource mobilization

Need to define and document clear criteria for prioritizing slum upgrading interventions

11.   The UN-Habitat work plan and budget for 2014-2015 and the Global Housing Strategy mandated by Governing Council resolution 23/16 guided the programmatic work of HSUP (also known as subprogramme 5). The work plan and budget for 2014-2015 stated that the World Cities Report, which publishes official statistics through Urban Indicators Programmes, would be used to report the results of global monitoring and assessment work to Governments and Habitat Agenda partners.

12.   HSUB drafted internal strategies in 2015 and 2016 to complement the Global Housing Strategy and implement the PSUP. Strategies developed included a Slum Upgrading Unit strategic plan, a slum upgrading strategy paper, retreat action points and country-specific slum upgrading strategies. These strategies guided the implementation of programmatic aspects of HSUP. Under the leadership of HSUB, the subprogramme implemented 50 projects between 2014 and 2016 with budgets estimated at over $274 million.

13.   UN-Habitat did not have clearly documented criteria for prioritizing and selecting countries that required slum upgrading interventions. UN-Habitat published the results of its normative work and statistics, including information on urban slum dwellers, in the World Cities Report. It was not clear how countries requiring slum upgrading interventions were selected. For example, there were no slum upgrading projects in three of the top four countries with the highest numbers of urban slum dwellers worldwide. On the other hand, $233 million out of $245 million (95 per cent) of slum upgrading project budget for Asia related to Afghanistan alone, which only had 5.1 million urban slum dwellers representing 0.9 per cent of the urban slum dwellers in Asia or 0.6 per cent of urban slum dwellers worldwide. Further, the UN-Habitat PSUP flagship programme was currently only limited to ACP

(African, Caribbean and Pacific) countries while other regions with high urban slum dwellers were not included.

14.   UN-Habitat explained that its work is focused on Least Developed Countries (LDCs) with limited capacity and experience in slum upgrading, but often with high urbanization rates that require pro-active measures to prevent the formation of new slums. UN-Habitat was pleased to report that out of 48 LDCs, slum upgrading was implemented in 45 countries, which was a very high number and showed high relevance in the context of urban poverty and slum upgrading.

15.   Further, the absence of projects in major slum dwelling countries was attributed to many projects being demand driven and strongly dependent on the political will of governments and requests for technical support. Therefore, the prioritization of countries for investment in line with the knowledge and selection criteria from normative work would remain limited. This, however, was not the case for the flagship programme, PSUP, which was driven by UN-Habitat. Without clearly defined criteria to link the results of its normative work and the countries selected for slum upgrading interventions, UN-Habitat may not be effective in addressing slum upgrading priorities in several urban centers identified as having significantly large slum dwelling populations.

16.   *UN-Habitat stated that it does not have the role to upgrade slums worldwide and contribute in terms of numbers of slum dwellers. To achieve significant impact in terms of slum dwellers' improvement (significant share of 1 billion slum dwellers) requires funds of an immense scope and is unfeasible to be fulfilled by one organization alone. There are country and city selection criteria that are applied within PSUP which reflect the relevance, political will and co-financing commitments by governments in order to ensure the highest sustainability of the action. Further, the Sustainable Development Goals (SDGs) and the indicators to be endorsed in October 2017 provide an opportunity to reinforce this strategy and selection criteria for universal engagement on inadequate housing, slums and informal settlements. Based on this experience therefore, UN-Habitat commits to developing an implementation strategy in line with SDG Target 11.1 and indicator 11.1.1.* In view of UN-Habitat's explanation and plan of action, OIOS did not make a recommendation on this aspect.

Need to establish targets for resource mobilization

17.   UN-Habitat's corporate level resource mobilization strategy envisages the pursuit of support from traditional donor countries as well as non-traditional financial sources like local authorities, non-governmental organizations and foundations. UN-Habitat requires project leaders, regional directors and other senior management to mobilize resources to fund projects and programmes. To do this effectively, realistic targets need to be established for resource mobilization strategies at various levels.

18.   UN-Habitat had a draft resource mobilization strategy for its flagship programme PSUP. The strategy provided a narrative of the approach with strengths, weaknesses, opportunities and threats as well as donor trends. However, the strategy did not quantify resource mobilization targets for 2014-2016, and how these targets would be achieved. It only contained broad goals and objectives but not the extent of funds to be mobilized.

19.   Targets for resource mobilization are necessary to strengthen accountability and increase the chances of success of UN-Habitat's resource mobilization efforts for the subprogramme.

> **(1) UN-Habitat should quantify the resource mobilization targets for the Housing and Slum Upgrading subprogramme and monitor the results periodically.**
>
> *UN-Habitat accepted recommendation 1 and stated that under the overall responsibility of the*

subprogramme coordinator, targets will be set at regional and branch levels as a means to deliver. Recommendation 1 remains open pending receipt of evidence that resource mobilization targets for the HSUP subprogramme have been quantified and results are being monitored periodically.

B.   Project approval and performance monitoring

Project approval process was not in accordance with the applicable policy

20.   The 2012 Project Based Management Policy provides guidance on the approval of projects. This includes the requirement to upload the minutes of the Project Approval Group (PAG) into the Project Accrual and Accountability System (PAAS) following review of projects and recommended changes. In addition, the appropriate Regional Director or Branch Coordinator is required to approve each project in PAAS.

21.   UN-Habitat provided a list of 50 projects for the HSUP subprogramme. The subprogramme's project universe could not be determined conclusively as UN-Habitat could not vouch for the completeness of the list. OIOS reviewed a sample of 22 projects valued at $99 million out of the 50 projects valued at $274 million and noted that the projects did not fully comply with the approval requirements of the 2012 Project Based Management Policy as explained below:

   a) For 14 projects approved in PAAS, PAG minutes were not available;
   b) Two projects had no PAG minutes and were not approved in PAAS. These were considered child[1] projects but the provision to 'add child project' had not been used in PAAS;
   c) One project had PAG minutes but was not approved in PAAS as the system work-flow had not been complied with;
   d) Two projects had no PAG minutes but were approved in PAAS as they were considered to be extensions; and
   e) One project approved in PAAS in 2007 by the Project Review Committee (which preceded the PAG) had no minutes showing approval.

22.   These weaknesses were attributed to inadequate controls in the project approval process. Since similar issues were previously reported in the OIOS report 2016/155 on an audit of UN-Habitat's project management process, no additional recommendation was made.

There were weaknesses in project monitoring

23.   The 2012 Project Based Management Policy requires project leaders to record project activity progress as well as output and expected accomplishment updates into PAAS at least once every three months. In addition, project leaders are required to record in PAAS information on financial performance including higher expenditure than budget, late payments from donors and overdue payments to implementing partners, among others.

24.   OIOS reviewed monitoring aspects in a sample of 22 projects and noted the following:

   a) The subprogramme did not generally comply with the monitoring requirements set out in the 2012 Project Based Monitoring Policy. Monitoring reports were not available in PAAS for 20 out of the 22 projects reviewed;

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[1] Considered to be sub-projects of an umbrella project where outputs, activities and objectives of these child projects are presumed to be aligned to that of the umbrella project.

b) In the absence of centralized financial information for the subprogramme, there was no evidence that financial performance management and monitoring took place;

c) Milestones for the subprogramme's portfolio of projects were not systematically monitored and there was no evidence of remedial measures taken for projects which were delayed.

25.   UN-Habitat was in the process of implementing an audit recommendation on similar issues which were reported in the OIOS report 2016/155 on an audit of UN-Habitat's project management process. Therefore, no additional recommendation was made.

C.   Project reporting and evaluation

<u>Need to conduct evaluations of projects as required</u>

26.   The UN-Habitat evaluation policy (2013) requires the Executive Director to conduct evaluations on behalf of governing bodies and stakeholders, ensure that the principles of evaluation are abided by, and provide necessary institutional support for the proper conduct of evaluation. The Executive Director is also required to approve the biennial evaluation plan, including the provisional budget for implementing the plan. The plan was expected to be prepared after an assessment of prioritized projects to be evaluated. The evaluations were required to be prioritized based on the following criteria: (a) mandatory evaluations requested by the Governing Council, other intergovernmental bodies, and donors; (b) evaluations that are of strategic relevance to the performance of the organization; (c) evaluations that are cross-cutting in nature; (d) evaluations of interventions that have innovative value and potential for replication; or (e) impact evaluations to assess changes brought by UN-Habitat interventions. The required evaluations included evaluations of projects and programmes such as mid-term and terminal evaluations, evaluations of the strategic plan, and impact evaluations.

27.   For the HSUP subprogramme, there was no evidence that an evaluation plan had been prepared to ensure that evaluations were selected and conducted according to established policy. During the period January 2014 to September 2016, UN-Habitat conducted only two terminal evaluations out of the 15 projects that ended in 2016. Further, mid-term evaluations were not carried out for 21 out of 22 projects reviewed. UN-Habitat attributed the limited number of evaluations to lack of funding. To address funding requirements for project and programme evaluations, the Executive Director issued an executive directive on 5 January 2016 requiring all new projects valued over $1 million to include an evaluation budget.

28.   In the absence of evaluations, UN-Habitat may not validate the evidence for the impact achieved by the subprogramme or identify areas requiring corrective action.

> **(2) UN-Habitat should ensure that projects of the Housing and Slum Upgrading subprogramme properly budget for evaluation in accordance with the evaluation policy.**
>
> *UN-Habitat accepted recommendation 2 and stated that projects are funded from donor contributions and thus evaluation cost should be properly budgeted in the project funding. Substantive officers continued to be encouraged to negotiate the component of evaluation with donors from the inception, and provide a budget line for it in the project budget. This is mandatory for large projects in line with the evaluation policy, unless the donor specifies otherwise. A minimum of self-evaluation is required for small projects. The Evaluation Unit participates in the PAG project development process to review project documents and budgets and advise substantive officers accordingly and to ensure compliance with evaluation requirements.   Recommendation 2 remains open pending receipt*

> of evidence that projects of the HSUP subprogramme properly budget for evaluation in accordance with UN-Habitat's evaluation policy.

<u>Need to track project expenditure against the budgets, expected accomplishments and outputs</u>

29.   The UN-Habitat Programme Management Manual requires Project Managers to measure and monitor the financial performance of projects based on planned budgets and mobilization of funds inputs. It further requires Project Managers to monitor and report on the overall progress towards delivery of outputs, and review the financial expenditures against output delivery and attainment of milestones. UN-Habitat has implemented PAAS to record and track projects from initiation, approval to implementation and closure. Both the narrative and financial reporting on projects was required to be processed through PAAS. PAAS was intended to improve decision-making in all key management areas, including finance, human resources, project formulation and implementation, as well as project monitoring, evaluation and reporting.

30.   Project Managers did not use PAAS in their narrative and financial reporting in 21 out of the 22 projects reviewed. This was attributed to a lack of clarity on the future of PAAS owing to the impending introduction of a project management system module in Umoja. However, UN-Habitat has indicated that PAAS would continue to be used to record and report on project activities.

> **(3) UN-Habitat should establish an internal reporting framework to track expenditure against the Housing and Slum Upgrading subprogramme's project budgets.**
>
> *UN-Habitat accepted recommendation 3 and stated that Umoja currently cannot deliver a consolidated reporting at the subprogramme level; however, UN-Habitat is now expanding the capability of its internal management information system, PAAS, to do so, and will transition to Umoja Extension 2 in 2019.* Recommendation 3 remains open pending receipt of evidence that an internal reporting framework has been established to track expenditure against the HSUP subprogramme's project budgets.

V.   ACKNOWLEDGEMENT

31.   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.

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STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Human Settlements Programme Housing and Slum Upgrading subprogramme

Rec. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	UN-Habitat should quantify the resource mobilization targets for the Housing and Slum Upgrading subprogramme and monitor the results periodically.	Important	O	Receipt of evidence that resource mobilization targets have been quantified for the HSUP subprogramme and results are being monitored periodically.	31 December 2017
2	UN-Habitat should ensure that projects of the Housing and Slum Upgrading subprogramme properly budget for evaluation in accordance with the evaluation policy.	Important	O	Receipt of evidence that projects of the HSUP subprogramme properly budget for evaluation in accordance with UN-Habitat's evaluation policy.	31 December 2017
3	UN-Habitat should establish an internal reporting framework to track expenditure against the Housing and Slum Upgrading subprogramme's project budgets.	Important	O	Receipt of evidence that an internal reporting framework has been established to track expenditure against the HSUP subprogramme's project budgets.	31 January 2018

[2] Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

[3] Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

[4] C = closed, O = open

[5] Date provided by UN-Habitat in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the United Nations Human Settlements Programme Housing and Slum Upgrading subprogramme

Rec. no.	Recommendation (revised when applicable)	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UN-Habitat should quantify the resource mobilization targets for the Housing and Slum Upgrading subprogramme and monitor the results periodically.	Important	Yes	Coordinator, Housing and Slum Upgrading subprogramme	31 December 2017	Under the overall responsibility of the subprogramme coordinator, targets will be set at regional and branch levels as a means to deliver.
2	UN-Habitat should ensure that projects of the Housing and Slum Upgrading subprogramme properly budget for evaluation in accordance with the evaluation policy.	Important	Yes	Coordinator, Housing and Slum Upgrading subprogramme	31 December 2017	Projects are funded from donor contributions and thus evaluation cost should be properly budgeted in the project funding. Substantive Officers continued to be encouraged to negotiate the component of evaluation with donors from the inception, and provide a budget line for it in the project budget. This is mandatory for large projects in line with the evaluation policy, unless donor specifies otherwise. A minimum of self-evaluation is required for small projects. The Evaluation Unit participates in the PAG project development process to review project documents and budgets and advice substantive officers accordingly and to ensure compliance with evaluation requirements.
3	UN-Habitat should establish an internal reporting framework to track expenditure against the Housing and Slum Upgrading subprogramme's project budgets.	Important	Yes	Coordinator, Housing and Slum Upgrading subprogramme	30 January 2018	UMOJA currently cannot deliver a consolidated reporting at the subprogramme level; however UN-Habitat is now expanding the capability of its internal management information system, PAAS, to do so, and will transition to UMOJA Extension 2 in 2019.

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[1] Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.
[2] Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.