



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/098

Audit of the United Nations Human Settlements Programme operations in Bangladesh

Overall results relating to effective and efficient implementation of activities pertaining to the United Nations Human Settlements Programme operations in Bangladesh were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

**19 November 2013
Assignment No. AA2013/250/01**

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AUDIT REPORT

Audit of the United Nations Human Settlements Programme operations in Bangladesh

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-Habitat) operations in Bangladesh.
2. 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.
3. UN-Habitat is mandated by the United Nations General Assembly to promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all.
4. During the period under review (January 2011 to June 2013), UN-Habitat Bangladesh was implementing the settlements improvement component (\$50.4 million) of the Urban Partnerships for Poverty Reduction (UPPR) project. The project was funded by the United Nations Development Programme (UNDP) under a letter of agreement signed between UN-Habitat and UNDP dated 24 April 2008. Under the letter of agreement, UN-Habitat was expected to provide services in the implementation of the project as specified in a UNDP project document and annual work plan. UNDP, in turn, received funding from one donor. The UPPR project was being implemented jointly by UNDP and UN-Habitat in collaboration with the Government of Bangladesh.
5. The stated objective of the UPPR project was "to improve the livelihood and living conditions of 3.5 million urban poor and extremely poor people especially women and girls." The project was being implemented principally by women in 24 cities and towns through community contracts. The communities were responsible for identifying and prioritizing needs and beneficiaries as well as the actual implementation of project activities.
6. UN-Habitat project activities in Bangladesh were managed by two international staff members, 32 national staff members and 10 national consultants. The project was overseen by the UN-Habitat Regional Office for Asia and the Pacific (ROAP) in Fukuoka, Japan.
7. Comments provided by UN-Habitat are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The audit 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 and efficient implementation of activities pertaining to the UN-Habitat operations in Bangladesh**.
9. OIOS included the assignment in the 2013 internal audit work plan in response to a request by UN-Habitat and due to financial and other operational risks related to the significant budget size of the project being implemented in Bangladesh.

10. The key controls tested for the audit were: a) performance monitoring indicators and mechanisms; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Performance monitoring indicators and mechanisms** - controls that provide reasonable assurance that metrics are: (i) established and are appropriate to enable measurement of the efficiency and effectiveness of operations; (ii) prepared in compliance with rules and are properly reported upon; and (iii) used to manage operations appropriately.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations in procurement and financial management; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

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

12. OIOS conducted this audit from 15 May 2013 to 18 June 2013. The audit covered the period from January 2011 to June 2013. The audit focused on the settlements improvement component of the UPPR project that was being implemented by UN-Habitat using the Settlements Improvement Fund (SIF). This component had an initial budget of \$50.4 million, representing 100 percent of all UN-Habitat activities in Bangladesh.

13. 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 determine their effectiveness.

III. AUDIT RESULTS

14. UN-Habitat governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective and efficient implementation of activities pertaining to the UN-Habitat operations in Bangladesh**. OIOS made 8 recommendations in the report to address issues identified in the audit. UN-Habitat accepted and is in the process of implementing these recommendations.

15. UN-Habitat was contributing to improving the livelihood and living conditions of poor people in Bangladesh, especially women and girls, by implementing settlement improvement activities in accordance with the letter of agreement with UNDP and related annual work plans. According to UN-Habitat records, in 2012, UN-Habitat exceeded all the performance indicators that were specified in the work plan. However, there was a need for UN-Habitat to strengthen internal controls by strengthening its risk management processes for implementing major projects; and preparing contract completion reports for completed project activities. With regard to regulatory framework, UN-Habitat needed to reinstate programme support costs in the budget as per the original agreement with UNDP and clarify its role in the implementation of community activities after the disbursement of funds.

16. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of five important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective(s)	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective and efficient implementation of activities pertaining to the UN-Habitat operations in Bangladesh	(a) Performance monitoring indicators and mechanisms	Partially satisfactory	Partially satisfactory	Satisfactory	Satisfactory
	(b) Regulatory framework	Satisfactory	Partially satisfactory	Satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Performance monitoring indicators and mechanisms

Expected outputs were achieved in 2012 according to UN-Habitat records

17. Under the letter of agreement signed between UNDP and UN-Habitat, UN-Habitat was expected to perform activities funded by SIF under the UPPR project in accordance with the UNDP project document and annual work plans. According to the project document and annual work plans, UN-Habitat expected outputs mainly related to construction of specified numbers of latrines, tube wells, footpaths and drains. UN-Habitat achieved the expected outputs through its activities funded by SIF as part of the UPPR project and thereby contributed to the improvement of the livelihood and living conditions of extremely poor people, especially women and girls. According to UN-Habitat records, in 2012, UN-Habitat exceeded all the targets in the UNDP work plan for latrines, tube wells, footpaths and drains as shown in Table 2 below.

Table 2: UN-Habitat performance for 2012 on SIF funded activities under the UPPR project

Key deliverable	2012		
	Target	Actual	Variance
Latrines	9,423	11,526	2,103
Tube wells	1,240	1,438	198
Footpaths	97	174	77
Drains	42	69	27

18. In April 2013, an independent evaluation commissioned by one donor found positive results on the SIF component in terms of processing of contracts, community satisfaction, and quality and maintenance of assets as follows:

(a) Contract processing: It took UN-Habitat an average of seven days and a maximum of 15 days to process contracts for its component. The average total time to process a contract for SIF as a whole was 56 days and the maximum was 157 days;

(b) Community satisfaction: Between 73 and 78 per cent of households were very satisfied with the latrines, tube wells, drains and footpaths constructed under SIF while 22 to 26 per cent were satisfied. The results were derived from a survey conducted by UPPR in March 2011; and

(c) Quality and maintenance of assets: Only one to ten per cent of the assets constructed under SIF contracts during or prior to 2010 were found to be non-functional according to the 2011 UPPR study. The study concluded that in the absence of any third party quality check, the findings indicated good quality and maintenance of assets.

19. During the audit field work, OIOS physically verified construction projects and interviewed representatives of four Community Development Committees (CDCs) in the towns of Dhaka, Comilla and Tongi. There were no differences noted between UN-Habitat records and actual construction activities that were physically verified. Community representatives interviewed expressed satisfaction with the outcomes of the project and they identified the main benefits of SIF activities to be as follows: (a) reduced water borne diseases due to access to clean water and hygienic latrines; (b) reduced diseases transmitted by insects that previously flourished in stagnant water as water drainage had improved; (c) reduction of expenditure on medicine due to reduced incidence of diseases; (d) easier movement of people, especially pregnant women and elderly people, on footpaths; (e) enhanced skills to support improved conditions of living; and (f) greater women empowerment.

Need to enhance reporting to stakeholders

20. UN-Habitat did not have a mechanism or system for communicating its achievements to stakeholders of the project other than to UNDP who were funding the project. As part of UNDP reporting to the project donor UN-Habitat Bangladesh reported on settlements improvements, but this information was not shared with other stakeholders. Therefore, UN-Habitat was missing the opportunity for enhancing its visibility with stakeholders, which was essential for the success of future fund raising activities.

(1) UN-Habitat should develop a mechanism for reporting its achievements under the Urban Partnerships for Poverty Reduction project to enhance its visibility with stakeholders.

UN-Habitat accepted recommendation 1 and stated that a mechanism for reporting achievements to other stakeholders of the project would be devised by the project team to enhance visibility through publications and accounts of families and community leaders will be done throughout the final year of the project. Secondly, UN-Habitat explained that it was now part of the International Aid Transparency Initiative via which the progress and achievements of all its projects were reported on a public site accessible by all stakeholders. UN-Habitat was in the process of developing a streamlined reporting system that would provide information on the financial and substantive results of its programmes. This information would feed into the agency's visibility products for both targeted stakeholders and wider audiences. Moreover, UN-Habitat includes its projects in the agency's annual report that is published and shared with the public and major stakeholders. Projects are also reported in the annual progress report presented to the Committee of Permanent Representatives on the delivery of the agency's programme of work. Recommendation 1 remains open pending the development of a streamlined reporting system on its achievements under the UPPR project to enhance its visibility with stakeholders.

Need to strengthen planning activities for implementation of major projects

21. The main purpose of developing strategic plans is to plan and appropriately allocate time, cost and resources to the work and to effectively manage risks during project implementation. Failure to adequately plan greatly reduces the project's chances of successfully accomplishing its objectives.

22. There was a need for UN-Habitat to strengthen planning activities for the implementation of major projects such as the SIF component of the UPPR project. Such planning could, among other things, identify optimal skill requirements for effective implementation of projects throughout the project lifespan and customized to local conditions. There were issues in the implementation of the project that highlighted inadequate planning activities for the risks that the project subsequently faced, mainly with staffing.

23. Three international staff had been budgeted for the project (a Senior Human Settlements Advisor, a Settlements Improvement Advisor and a Community Banking Advisor), but at the time of the audit (June 2013) there were only two international staff on board and the project was adversely impacted whenever the staff members were not present (such as when staff were on mission or annual leave). A Settlements Improvement Advisor left in October 2012 and was never replaced until the post was abolished in February 2013. There was no succession planning in case of absence of key staff. Generally there were delays in recruitment of staff. For example, a request for classification for a position of Community Banking Advisor was sent to UN-Habitat Headquarters in September 2012, but was expected to be filled only in August 2013. Similarly, a request for classification for the position of a Community Governance Advisor that was sent in October 2012 had not been completed at the time of the audit.

24. In June 2013, a position of a National Coordinator was created and filled as a result of a recommendation by UNDP to backstop the international staff member. The project could have been served better if UN-Habitat had identified this need right from the start of the project in the project planning phase given that UN-Habitat has unique expertise in the area. Furthermore, stakeholders identified a need for an Urban Planning and Land Tenure Advisor who was recruited in June 2013. Lack of land security was the most important drawback that communities identified as an impediment to efforts to improve settlement as there was possibility of eviction and loss of investment by the community. Since land tenure was one of the key mandated areas, UN-Habitat could have identified the need for such expertise and ensured that a qualified staff member was available throughout the project.

25. The project staff were overloaded with work. The project only had five experts who were supported by 24 assistants (one for each town). On average, each technical staff member supported 68 CDCs while there were seven towns in which each staff member supported more than 70 CDCs as shown in Table 3 below. Furthermore, the UN-Habitat project team in Dhaka only had one staff member to process an estimated 1,200 contracts for the year 2013. Overloading of staff could result in compromising the quality of services provided and lead to delays.

Table 3: Example of ratio of CDCs to technical staff members in towns as at 18 June 2013

Town	Number of technical staff	Number of CDCs	Ratio of CDC per technical staff member
Barishal	1	143	143
Sylhet	1	115	115
Chittagong	4	402	100.5
Sirajgonj	1	82	82
Bogra	1	78	78
Maymensingh	1	78	78
Dhaka	5	362	72.4

26. Generally, from discussions with UNDP management, there were concerns regarding UN-Habitat's capacity to implement the remaining part of the project, with a budget of \$12 million, by the expected project end date of August 2014. Therefore, there was a need for UN-Habitat to ensure that it had the necessary capacity to complete the project within agreed timeframes.

(2) UN-Habitat should develop strategic plans for the implementation of major projects and customize them to local conditions to ensure that bottlenecks and delays are prevented to the extent possible.

UN-Habitat accepted recommendation 2 and stated that the UN-Habitat Programme Approval Mechanism/Group is a project review structure and a strategic management tool that aims at strengthening alignment, compatibility and coherence between the Strategic Plan, the biennial work programme and programmes and projects. The review mechanism ensures high quality in project design at entry, including quality oversight in the embedment of Results-Based management principles. UN-Habitat stated that it would further strengthen its risk management processes for major projects to ensure bottlenecks and delays were prevented to the extent possible. UN-Habitat has also plans to provide risk management training to the Programme Approval Mechanism/Group panel members. In addition to the quality assurance in project design at entry, UN-Habitat has recently developed a Project Implementation Monitoring Framework with the objective to assist the organization to address any impediments to project progress and make adjustments so that results can be achieved within the designated timeframe. The Programme Approval mechanism with robust Project Implementation Monitoring will provide the basis for strategic plans for project implementation to ensure that bottlenecks are detected and delays are prevented to the extent possible. Recommendation 2 remains open pending confirmation that UN-Habitat has conducted risk management training to the Programme Approval mechanism/Group panel members as part of strengthening its risk management processes for major projects to ensure bottlenecks and delays are prevented to the extent possible.

(3) UN-Habitat should re-assess its capacity to complete the remaining part of the project by the agreed completion date of August 2014 and take appropriate measures as needed.

UN-Habitat accepted recommendation 3 and stated that, as of early October 2013, UN-Habitat had already disbursed approximately \$7 million (80% of the 2013 budget) to the communities. In addition, \$1.8 million worth of community contracts are being currently processed. Therefore, the total 2012 budget will be disbursed to the communities by the end of November 2013. In addition, UN-Habitat Bangladesh is already processing project proposals from communities totaling approximately \$2.2 million or 96% of the 2014 budget. UN-Habitat is confident that it has the required capacity to deliver the remaining activities by the completion date. Based on the actions taken by UN-Habitat, recommendation 3 has been closed.

Delays in completion of project activities needed to be addressed

27. Project activities were performed at four levels: communities; town level; project headquarters level in Dhaka, Bangladesh; and UN-Habitat ROAP/UNDP level. The process was as follows:

- (a) Communities prepared contract proposals;
- (b) Town management teams consisting of project staff and municipalities reviewed the proposals and if satisfied forwarded the proposals to UN-Habitat for further review;
- (c) UN-Habitat at the project office in Dhaka, Bangladesh, reviewed the proposals and if satisfied further forwarded the proposals to the UN-Habitat ROAP for approval and requested payment for the activities;

- (d) ROAP authorized UNDP to disburse 100 per cent of the contract funds directly to government municipalities;
- (e) Municipalities further disbursed the funds to communities based on agreed schedules of deliverables; and
- (f) Communities implemented project activities, prepared contract completion reports that were reviewed by municipal authorities and finally sent to UN-Habitat project office in Dhaka.

28. Parties involved in the implementation of project activities took long to complete assigned activities and completion reports. According to contracts between municipalities and communities, communities had six months to construct latrines/tube wells but there were no mechanisms to ensure compliance with this requirement. For example, only 11 percent of contracts signed in 2012 between UN-Habitat and Bangladesh municipalities for implementation of community project activities had final contract completion reports filed with the UN-Habitat office in Dhaka, Bangladesh. UN-Habitat explained that the town field teams prepared the completion reports and maintained copies in the town office but it was not a requirement to send the reports to Dhaka headquarters. This was being corrected. Completion report submission rates for contracts signed from 2009 to 2012 are detailed in Table 4 below.

Table 4: Summary of project completion reports from 2009 to 2012 as at 18 June 2013

Year	Number of contracts signed	Final reports received for completed projects	Completion rate (percentage)
2009	565	400	71
2010	707	541	77
2011	821	455	55
2012	1,304	145	11
Total	3,397	1,541	45

29. The delays in the completion of activities were due to lack of operational performance targets and where targets had been set, inadequate mechanisms to ensure achievement of the targets. There were no operational targets within which UN-Habitat had to process contracts received from municipalities and disburse funds; once municipalities received funds, there were no timelines for further disbursement to communities and no timelines for municipalities to submit final contract completion reports to UN-Habitat. UN-Habitat noted that it experienced significant delays in some municipalities due to key staff not being available when needed such as during election periods. Un-Habitat accepted an opportunity for improvement that it liaise with UNDP and other stakeholders involved and assess the viability of introducing operational targets for completion of all project activities in order to ensure timely completion of projects. For this purpose, UN-Habitat stated that it had since completed an operational plan that would be closely monitored.

30. There were inconsistencies in the number of installments for payments to communities. For example, in the town of Comilla, communities were paid in three installments while in the town of Tongi five installments were used. Since requesting, processing and authorization of installments took time, the higher the number of installments the higher the risk of delays in completion of activities. UN-Habitat had since accepted an opportunity for improvement by having all municipalities administer only three installments in order to expedite the completion of activities.

31. Delays in completion of project activities resulted in: delayed realization of project benefits; extended management oversight of projects hence additional costs; and delayed freeing up of management capacity to attend to other communities. The communities interviewed also indicated that

delays were adversely impacting them mainly in two ways: (a) increased costs of materials and labour which resulted in budget deficits leading to delayed completion of planned activities; and (b) decreased quality of outputs as only substandard materials and labour were found or skilled labour was no longer available for extended periods of times.

(4) UN-Habitat should ensure that project activities are completed in a timely manner; and final contract completion reports are prepared and filed in the Dhaka Office.

UN-Habitat accepted recommendation 4 and stated that:

- *As at 30 June 2013, 75 per cent of completion reports of pre-2012 contracts are already in file at the Dhaka head office;*
- *By 31 December 2013, 95 per cent of all pre-2013 contracts will be closed and completion reports filed;*
- *The operational target is to get 80 percent of all projects approved during the project period completed and accounts closed with completion reports on file by 31 March 2014;*
- *That will leave the real problematic projects (land disputes, political problems, cost over runs, etc.) and a few projects in large towns to be completed during the final four months of the project; and*
- *The above targets have been included in the Operational Plan (UNDP/UPPR Management Strategy and Action Plan) of the project and in the work plan submitted to the donor.*

Recommendation 4 remains open pending receipt of confirmation that final contract completion reports have been prepared and filed in the Dhaka Office for all contracts whose field activities have been completed.

B. Regulatory framework

Letter of agreement was complied with during the period under review

32. UN-Habitat complied with the letter of agreement that was signed on 24 April 2008 between UNDP and UN-Habitat on the implementation of the UPPR project. In accordance with the letter of agreement, UN-Habitat implemented activities as specified in the UNDP project documents and related annual work plans. UN-Habitat also maintained separate financial records for the project and provided periodic financial statements to UNDP.

Programme support costs needed to be included and itemized separately in the budget

33. The revised project budget did not include funds for programme support costs for UN-Habitat. In the letter of agreement between UNDP and UN-Habitat signed on 24 April 2008, there was a budget line for programme support costs of \$2.4 million which was five percent of the project costs. However, in a subsequent amendment to the letter of agreement dated 13 February 2013, programme support costs were excluded in the revised budget while other expenditure lines were increased by five percent.

34. The letter of agreement with UNDP stated that “UNDP shall have no obligation to provide UN-Habitat any funds or make any re-imbursement for expenses incurred by UN-Habitat in excess of the total budget as set forth in the project document and annual work plan”. There was a risk of dispute between UNDP and UN-Habitat for any funds used by UN-Habitat for programme support costs. According to UN-Habitat financial statements, as at 31 December 2012, UN-Habitat had already spent \$1.4 million on project support costs.

35. UN-Habitat explained that UNDP had requested that support costs be integrated into each budget line to reflect the total expenditure on each budget line. OIOS is of the opinion that incorporating programme support costs in budget lines would distort the actual expenditure on project activities and compromise the accuracy and reliability of financial reports to be prepared by UN-Habitat for 2013 and 2014.

(5) UN-Habitat should request an amendment to the letter of agreement with UNDP to re-instate programme support costs in the budget as per the original agreement.

UN-Habitat accepted recommendation 5 and stated that it will start soon discussion with UNDP for an amendment with prospective changes to the budgeting and the related financial reporting of the project. Recommendation 5 remains open pending amendment of the letter of agreement with UNDP to re-instate programme support costs in the budget as per the original agreement.

Travel expenditure needed to be budgeted for

36. There was no budget for staff to travel to field locations to monitor project activities. In order to ensure some oversight over field activities, UNDP provided transport and met travel costs for UN-Habitat national staff in an informal arrangement. While the initial UN-Habitat budget for the project included \$75,000 and \$80,000 for mission costs for seven years, these budgets were to cover mission costs for staff from ROAP and UN-Habitat Headquarters, respectively, to visit the project office in Bangladesh.

37. Not budgeting for travel could hamper the ability of UN-Habitat to fulfill its responsibilities in effectively and efficiently implementing the SIF component of the UPPR project.

(6) UN-Habitat should provide for travel expenditure in the project budget in order to facilitate field visits that are necessary to monitor project implementation.

UN-Habitat accepted recommendation 6 and stated that UN-Habitat Advisor has negotiated with UNDP/UPPR to include travel allowance budget line (\$15,000 in 2013 and \$15,000 in 2014) in the mid-year review of the annual work plan and budget. Based on the actions taken by UN-Habitat, recommendation 6 has been closed.

Planning and disbursement activities needed to be reviewed

38. UN-Habitat did not disburse any funds to municipal authorities from 1 January to 16 June 2013. UN-Habitat explained that normally planning activities took place in the first half of the year while actual disbursements were usually made in the second half of the year. According to the community members interviewed, construction activities in Bangladesh were mainly done from January to June each year, because July to December was the rainy season. During the rainy season, communities experienced challenges in construction because of wet conditions and scarcity of building materials as most factories were closed, which in turn increased the cost of building materials.

39. By disbursing funds in the second part of the year, UN-Habitat, the Government of Bangladesh and communities lost an important opportunity to implement the projects in a timely manner. Delays in completion of project activities resulted in untimely realization of project benefits and exposure to higher project costs.

(7) UN-Habitat should re-organize its planning activities so that funds are disbursed to municipalities at an appropriate time for implementation of project activities taking into

account the rainy season.

UN-Habitat accepted recommendation 7 and stated that the project approval process has been reviewed so that by 30 September 2013 (or latest mid-October), which is one month before the end of the monsoon rains, funds for 95 per cent of the projects will already be in the municipalities for disbursement to the communities. In order to expedite the funds disbursement to the communities, advance information will be provided to the CDCs as soon as the management approves the project. The communities can then request for their first installment without waiting for the funds to actually arrive in the municipality. Rather than calendar months, field operations will be managed around the construction season. Therefore community action planning and contract preparation are to be undertaken before the monsoon rains and contract processing during the monsoon period to assure that funds are available to the communities as the monsoon is ending. Based on the actions taken by UN-Habitat, recommendation 7 has been closed.

Role of UN-Habitat after disbursement of funds needed to be clarified

40. The letter of agreement between UNDP and UN-Habitat was not clear on the accountability for UN-Habitat regarding the monitoring of the actual implementation of project activities. This could result in disputes with UNDP and the Government of Bangladesh which could potentially impact on the reputation of UN-Habitat.

41. UNDP provided funds to UN-Habitat for the delivery of specific and measureable outputs as per annual work plans. UN-Habitat's role in the project after disbursement of funds to municipalities was not clear. Based on the approved project proposals, UN-Habitat disbursed 100 per cent of the funds to municipalities. Thereafter, municipalities disbursed the funds to the communities based on agreed deliverables. However, it was not clear whether UN-Habitat had any role to play to address problems during project implementation at the community level. For example, it was not clear whether UN-Habitat could intervene when communities failed to deliver the agreed outputs, or when municipalities failed to transfer funds to the communities.

(8) UN-Habitat should clarify with UNDP its role in the implementation of community activities after the disbursement of funds and amend the letter of agreement accordingly.

UN-Habitat accepted recommendation 8 and stated that it will clarify with UNDP its role in the implementation of community projects after disbursements of funds, particularly in cases where communities do not deliver the specified outputs, when there are significant balances in bank accounts and when there are savings against disbursed funds to the communities. Recommendation 8 remains open pending receipt of confirmation that UN-Habitat has clarified its role with UNDP in the implementation of community activities after the disbursement of funds and amended the letter of agreement accordingly.

IV. ACKNOWLEDGEMENT

42. 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.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Human Settlements Programme operations in Bangladesh

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UN-Habitat should develop a mechanism for reporting its achievements under the Urban Partnerships for Poverty Reduction project to enhance its visibility with stakeholders.	Important	O	Development of a streamlined reporting system on its achievements under the UPPR project to enhance its visibility with stakeholders.	31 December, 2013
2	UN-Habitat should develop strategic plans for the implementation of major projects and customize them to local conditions to ensure that bottlenecks and delays are prevented to the extent possible.	Important	O	Confirmation that UN-Habitat has conducted risk management training to the Programme Approval mechanism/Group panel member as part of strengthening its risk management processes for major projects to ensure bottlenecks and delays are prevented to the extent possible.	31 January, 2014
3	UN-Habitat should re-assess its capacity to complete the remaining part of the project by the agreed completion date of August 2014 and take appropriate measures as needed.	Important	C	Implemented	31 October 2013
4	UN-Habitat should ensure that project activities are completed in a timely manner; and final contract completion reports are prepared and filed in the Dhaka Office.	Important	O	Receipt of confirmation that final contract completion reports have been prepared and filed in the Dhaka Office for all contracts whose field activities have been completed.	31 December, 2013
5	UN-Habitat should request an amendment to the letter of agreement with UNDP to re-instate programme support costs in the budget as per the original agreement.	Important	O	Amendment of the letter of agreement with UNDP to re-instate programme support costs in the budget as per the original agreement.	31 December, 2013
6	UN-Habitat should provide for travel expenditure in the project budget in order to facilitate field visits that are necessary to monitor project implementation.	Important	C	Implemented	31 October 2013

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by UN-Habitat in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Human Settlements Programme operations in Bangladesh

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
7	UN-Habitat should re-organize its planning activities so that funds are disbursed to municipalities at an appropriate time for implementation of project activities taking into account the rainy season.	Important	C	Implemented	31 October 2013
8	UN-Habitat should clarify with UNDP its role in the implementation of community activities after the disbursement of funds and amend the letter of agreement accordingly.	Important	O	Receipt of evidence showing that UN-Habitat has clarified with UNDP its role in the implementation of community activities after the disbursement of funds and amended the letter of agreement accordingly.	31 December, 2013

APPENDIX I

Management Response

MEMORANDUM

To: Gurpur N. Kumar, Deputy Director
Internal Audit Division, OIOS

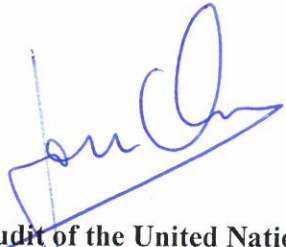
Reference:

Through:

From: Dr. Joan Clos
Executive Director
UN-Habitat

Date: 29 October 2013

Subject: **Draft report on an audit of the United Nations Human Settlements Programme operations in Bangladesh (Assignment No. AA2013/250/01)**



I refer to your Draft Report on the above mentioned audit dated 7 October 2013 addressed to me and requesting comments.

I am pleased to present in attached Appendix I an action plan with target dates and the title of the individual responsible for implementation of each recommendation. We take this opportunity to thank the Office of Internal Oversight services (OIOS) for the services it provided to UN-Habitat on the above-mentioned audit.

AUDIT RECOMMENDATIONS

APPENDIX I

Audit of the United Nations Human Settlements Programme operations in Bangladesh

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
1	UN-Habitat should develop a mechanism for reporting its achievements under the Urban Partnerships for Poverty Reduction project to enhance its visibility with stakeholders.	Important	Yes	Senior Human Settlements Officer, Regional Officer for Asia Pacific	31 December 2013	<ul style="list-style-type: none"> • A mechanism for reporting achievements to other stakeholders of the project would be devised by the project team to enhance visibility through publications and accounts of families and community leaders will be done throughout the final year of the project. • Secondly, UN-Habitat is now part of the International Aid Transparency Initiative via which the progress and achievements of all its projects were reported on a public site accessible by all stakeholders. UN-Habitat is in the process of developing a streamlined reporting system that would provide information on the financial and substantive results of its programmes. This information would feed into the agency's visibility products for both targeted stakeholders and wider audiences. • UN-Habitat includes its projects in the agency's annual report that is published and shared with the public and major stakeholders. Projects are also reported in the

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

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						annual progress report presented to the Committee of Permanent Representatives on the delivery of the agency's programme of work.
2	UN-Habitat should develop strategic plans for the implementation of major projects and customize them to local conditions to ensure that bottlenecks and delays are prevented to the extent possible.	Important	Yes	Secretariat of the Project Approval Group under the Programme Division	31 January 2014	<ul style="list-style-type: none"> • The UN-Habitat Programme Approval Mechanism/Group (PAG) is a project review structure and a strategic management tool that aims at strengthening alignment, compatibility and coherence between the Strategic Plan, the biennial work programme and programmes and projects. The review mechanism ensures high quality in project design at entry, including quality oversight in the embedment of Results-Based management (RBM) principles. • UN-Habitat will further strengthen its risk management processes for major projects to ensure bottlenecks and delays are prevented to the extent possible. UN-Habitat has also plans to provide risk management training to the PAG panel members. • In addition to the quality assurance in project design at entry, UN-Habitat has recently developed a Project Implementation Monitoring Framework with the objective to assist the organization to address any impediments to project progress and make adjustments so that results can be achieved

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						within the designated timeframe. The Programme Approval mechanism with robust Project Implementation Monitoring will provide the basis for strategic plans for project implementation to ensure that bottlenecks are detected and delays are prevented to the extent possible.
3	UN-Habitat should re-assess its capacity to complete the remaining part of the project by the agreed completion date of August 2014 and take appropriate measures as needed.	Important	Yes	Settlement Improvement Advisor, UN-Habitat Bangladesh	31 December 2013	As of early October 2013, UN-Habitat already disbursed approx. \$7 million USD (80% of the 2013 budget) to the communities. In addition \$1,8 million USD worth of community contracts are being currently processed. Therefore the total 2013 budget will be disbursed to the communities by end of November 2013. In Addition UN-Habitat Bangladesh is already processing project proposals from communities totaling approx.. 2.2 million USD or 96% of the 2014 budget. UN-Habitat is confident it has the required capacity to deliver the remaining activities by the completion date.
4	UN-Habitat should ensure that project activities are completed in a timely manner; and final contract completion reports are prepared and filed in the Dhaka Office.	Important	Yes	Settlement Improvement Advisor, UN-Habitat Bangladesh	31 December 2013	<ul style="list-style-type: none"> • As at 30 June 2013, 75% of completion reports of pre-2012 contracts are already in file at the Dhaka head office; • By 31 December 2013, 95% of all pre-2013 contracts will be closed and completion reports filed; • The operational target is to get 80% of all projects approved during the project period completed and accounts closed

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						<p>with completion report on file by 31 March 2014;</p> <ul style="list-style-type: none"> • That will leave the real problematic projects (land disputes, political problems, cost over runs, etc.) and a few projects in large towns to be completed during the final four months of the project; and • The above targets have been included in the Operational Plan (UNDP/UPPR Management Strategy and Action Plan) of the project and in the work plan submitted to the donor.
5	UN-Habitat should request an amendment to the letter of agreement with UNDP to re-instate programme support costs in the budget as per the original agreement.	Important	Yes	Senior Human Settlements Officer, Regional Officer for Asia Pacific	31 December 2013	UN-Habitat will start soon discussion with UNDP for an amendment with prospective changes to the budgeting and the related financial reporting of the project.
6	UN-Habitat should provide for travel expenditure in the project budget in order to facilitate field visits that are necessary to monitor project implementation.	Important	Yes	Senior Human Settlements Officer, Regional Officer for Asia Pacific	31 December 2013	UN-Habitat Advisor has negotiated with UNDP/UPPR to include travel allowance budget line (\$15,000 in 2013 and \$15,000 in 2014) in the midyear review of the annual work plan and budget.
7	UN-Habitat should re-organize its planning activities so that funds are disbursed to municipalities at an appropriate time for implementation of project activities taking into account the	Important	Yes	Settlement Improvement Advisor, UN-Habitat Bangladesh	31 December 2013	The project approval process has been reviewed so that by 30 September 2013 (or latest mid-October), which is one month before the end of the monsoon rains, funds for 95 per cent of the projects will already be in the municipalities for disbursement to the communities. In order to

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	rainy season.					<p>expedite the funds disbursement to the communities, advance information will be provided to the CDCs as soon as the management approves the project. The communities can then request for their first installment without waiting for the funds to actually arrive in the municipality.</p> <p>Rather than calendar months, field operations will be managed around the construction season. Therefore community action planning and contract preparation are to be undertaken before the monsoon rains and contract processing during the monsoon period to assure that funds are available to the communities as the monsoon is ending.</p>
8	UN-Habitat should clarify with UNDP its role in the implementation of community activities after the disbursement of funds and amend the letter of agreement accordingly.	Important	Yes	Senior Human Settlements Officer, Regional Officer for Asia Pacific	31 December 2013	UN-Habitat will clarify with UNDP its role in the implementation of communities after disbursements of funds, particularly in cases where communities do not deliver the specified outputs, when there are significant balances in bank accounts and when there are savings against disbursed funds to the communities.