



INTERNAL AUDIT DIVISION

REPORT 2015/178

Audit of the United Nations Human Settlements Programme Regional Office for Arab States

Overall results relating to Regional Office for Arab States operations were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

16 December 2015
Assignment No. AA2014/250/04

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AUDIT REPORT

Audit of the United Nations Human Settlements Programme Regional Office for Arab States

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-Habitat) Regional Office for Arab States (ROAS).
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. From 1993 to 2001, several Governing Council resolutions endorsed the regionalization strategy for UN-Habitat by establishing regional offices with a view to strengthening the organization's presence and coverage in the regions to facilitate the implementation of the Habitat Agenda. ROAS was established and carved out of its predecessor organization - the Regional Office for Africa and the Arab States (ROAAS) - due to the need for a stand-alone regional office to cater for the increasing urbanization challenges facing the Arab States region and improving the overall presence and coverage of UN-Habitat activities in the region. The signing of a host country agreement with the Government of Egypt in September 2010 and subsequent accreditation in 2011 formalized the set-up of ROAS. ROAS is mandated to provide normative and operational services to 18 countries across the Arab States region and had active operations in 11 of these countries, namely: Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Palestine, the Kingdom of Saudi Arabia, Syria, Sudan and Tunisia.
4. The Regional Office's portfolio in the Arab States region had grown significantly from seven projects valued at \$12.34 million that it inherited from the former ROAAS, to about 53 projects valued at \$162 million as at May 2015. During the financial years 2014 and 2015, the average allocated core expenditure or annual approved spending limit for ROAS was approximately \$1 million.
5. As of May 2015, ROAS was headed by an Acting Regional Director. In his capacity as Senior Human Settlements Officer, he also provided technical support in programme implementation across the region. ROAS had a total of 19 staff posts. Of these, three were located in Cairo (Egypt), two in Nairobi (Kenya), and 14 in various project offices in the region. Six posts were funded through core funds, i.e., the UN-Habitat Foundation and Programme Support Costs, and the other 13 posts, including the Regional Director, were funded by project funds.
6. Comments provided by UN-Habitat are incorporated in italics.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of UN-Habitat governance, risk management and control processes in providing reasonable assurance regarding the **efficiency and effectiveness of UN-Habitat ROAS operations**.

8. The audit was included in the 2014 internal audit work plan for UN-Habitat due to high strategic and operational risks relating to ROAS operations, which were key in the delivery of UN-Habitat's mandate in the region.

9. The key controls tested for the audit were: (a) programme and project management; (b) coordinated management mechanisms; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Programme and project management** - controls that provide reasonable assurance that ROAS has appropriate programme and project management capacity to effectively and efficiently implement its mandate;

(b) **Coordinated management mechanisms** - controls that provide reasonable assurance that appropriate mechanisms are in place to facilitate coordination between UN-Habitat headquarters and ROAS and promote collaboration in programme delivery; and

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

10. The key controls were assessed for the control objectives shown in Table 1. Certain control objectives (shown in Table 1 as "Not assessed") were not relevant to the scope defined for this audit.

11. OIOS conducted the audit in two phases from 20 May to 14 July 2014 and from 4 to 31 July 2015. The audit covered the period from January 2014 to May 2015.

12. 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

13. The UN-Habitat governance, risk management and control processes examined were assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **efficiency and effectiveness of UN-Habitat ROAS operations**. OIOS made four recommendations to address issues identified in the audit.

14. Programme and project management were assessed as partially satisfactory because there was need for UN-Habitat to: (a) review the allocation of core resources to ROAS to enable ROAS to manage its operations effectively; (b) take measures to ensure the completeness of data in the Project Accrual and Accountability System to enable the generation of relevant reports for monitoring purposes; (c) strengthen its monitoring and evaluation practices; and (d) ensure that projects are closed in accordance with applicable guidelines and standards.

¹ A rating of "**partially satisfactory**" means that important (but not critical or pervasive) deficiencies exist 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.

15. Coordinated management mechanisms were assessed as partially satisfactory because there was need for ROAS to ensure that new projects are formulated in accordance with applicable policies and procedures to maintain the integrity of the project review process.

16. Regulatory framework was assessed as partially satisfactory because there was need to seek guidance from the Department of Safety and Security (DSS) to resolve the outstanding recommendations relating to compliance with the Minimum Operating Security Standards (MOSS).

17. 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 four important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Efficiency and effectiveness of UN-Habitat ROAS operations	(a) Programme and project management	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
	(b) Coordinated management mechanisms	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
	(c) Regulatory framework	Partially satisfactory	Satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Programme and project management

ROAS priorities were linked to the UN-Habitat strategic plan, work programme and budget

18. ROAS priorities, policies and strategies were set out in four key documents: the host country agreement signed with the Government of Egypt; the UN-Habitat overall strategic plan for 2014-2019; the strategic framework, work programme and budget for 2014-2015; and the “region-specific” biennial work plan for 2014-2015. In accordance with the Governing Council’s resolution 24/15 of 19 April 2013, ROAS also developed a draft regional strategic plan that outlined its plans and strategies for achieving the Habitat Agenda in the region. While substantially complete, the draft regional strategic plan was awaiting final touches to align it to the draft urban development strategy document for the Arab States region – a process that was expected to be completed upon formal adoption of the strategy document by the League of Arab States in 2016.

19. Based on a review of the ROAS work plan for 2014-2015 and the draft regional strategic plan, OIOS concluded that ROAS plans and priorities were aligned to the UN-Habitat work programme for 2014-2015 and the strategic plan for 2014-2019.

Need for UN-Habitat to prioritize the allocation of core resources to ROAS to enable it manage the growth in volume and scale of operations

20. The draft Secretary-General's Bulletin on the organization of UN-Habitat (submitted to the Department of Management in February 2014) requires the Management and Operations Division of UN-Habitat to, inter alia, coordinate the allocation and management of the organization's budgetary resources, including its human resources requirements.

21. ROAS had experienced an exponential growth in volume and scale of operations since its establishment in 2010. The growth had however not been matched by an increase in the core resources allocated to the office to administer, manage and sustain its operations. In particular:

- The ROAS project portfolio increased significantly from seven projects, valued at \$30 million, in 2010 to 53 projects valued at \$162 million in May 2015. Further growth was anticipated, and at the time of the audit in July 2015, ROAS was in discussion with potential donors for an additional 15 projects valued at approximately \$60 million.
- Over the same period, the regional office had recorded a significant increase in the scope of its geographical coverage. ROAS was presently mandated to operate in 18 countries across the Arab States region and had active projects in 11 countries, compared to only five country operations in 2010.
- There had been a considerable increase in the diversity of donors, stakeholders and counterparts with whom ROAS collaborated in implementing the Habitat Agenda. Moreover, the Arab States region had over the years transformed phenomenally, calling for renewed focus and engagement to address the ever-increasing regional challenges, including the three emergency countries in the region.

22. Despite the more than five-fold increase in project portfolio value and growth in the regional office's profile and scale of operations, ROAS continued to operate with the same level of core resources as it did when it was established in 2010.

23. The insufficient allocation of core resources was also demonstrated by the comparatively low core resources, including staff positions, allocated to ROAS relative to other regional offices. While ROAS had only six approved core posts, other regional offices with comparable or smaller project portfolios were notably allocated higher approved spending limits and had more core resources and staff posts. The mismatch between the core resources (staff) and scale of the regional office's operations resulted in staff being stretched too thin to carry out all of their responsibilities effectively. If not corrected, this could jeopardize ROAS ability to administer and manage its expanding portfolio and potentially expose it to reputational risks associated with the failure to deliver and meet the expectations of donors and counterparts with whom UN-Habitat is involved in programme delivery.

24. UN-Habitat explained that resource constraints resulted in time pressures on staff who had to either prioritize and direct their focus on substantive activities that directly impacted project delivery and fulfillment of donor requirements, or attend to routine administrative tasks. Also, ROAS ability to support substantive work and strengthen partnerships at the regional level was adversely affected. Additionally, staff had conveyed concern regarding continuous over-burdening for the last three years.

(1) UN-Habitat should review the allocation of core resources to ROAS with a view to providing ROAS with appropriate resources to manage its operations effectively.

UN-Habitat accepted recommendation 1 and stated that it will review the criteria and the basis of allocation of core resources to regional offices in line with its zero-based budgeting exercise which aligns resources with strategic and operational priorities. Recommendation 1 remains open pending receipt of evidence of appropriate resource allocation to ROAS in line with the revised basis of allocation of core resources to regional offices.

Need to strengthen project monitoring, evaluation and closure practices

25. Section 5.2 of the UN-Habitat programme and project cycle management manual emphasizes the need for project monitoring and review as a tool for assessing project progress and ensuring the achievement of planned results. The project-based management policy (2012) assigned the responsibility for monitoring implementation at the regional/country to the Regional Directors and at the corporate level to the Programme Division.

26. ROAS had established mechanisms for monitoring its financial and substantive performance. The office had a Board of Management comprising all heads of country offices that met every two months to review performance, and discuss and resolve issues impacting programme delivery. Regular field missions were conducted by regional office staff (and sometimes by country offices' staff) to backstop, verify and validate progress. Periodic performance reports were prepared and sent to UN-Habitat Headquarters. Information management, tools and technology (such as the Project Accrual and Accountability System (PAAS) and the Integrated Management Information System) were also in place to facilitate tracking and monitoring of activities, outputs, expected accomplishments, incomes, expenditures and budget information. Through a memo issued in August 2013, the Deputy Executive Director required all project leaders to ensure that project information is updated in PAAS. In March 2015, ROAS undertook a self-evaluation of its operations with a view to assessing the impact of its activities, achievements and lessons learned. In addition, country offices prepared monitoring reports which were shared with the respective donors.

27. While taking note of these positive actions, there was still a need to strengthen ROAS monitoring practices. For example, project managers did not always enter or update project performance data in PAAS. Therefore, the system did not contain accurate, reliable and up-to-date information to facilitate effective monitoring. Reports of monitoring activities, including mission reports, were not always prepared, which reduced their usefulness in following up on performance-related issues. In addition, ROAS did not also ensure that all projects were evaluated in accordance with the organization's policy, which may have resulted in some missed opportunities to learn lessons for the future. For instance, there was no evidence of evaluations conducted for eight projects that were completed as of May 2015.

28. Additionally, six out of eight projects reviewed by OIOS had not been closed in accordance with Section 10 of the UN-Habitat project based management policy (2012) and UN-Habitat project manual (2010) which provide guidelines for closing programmes and projects. In particular, while five of the eight projects reviewed had been completed and final reports were submitted to the respective donors in four cases, ROAS did not upload the final reports in PAAS as required, thereby hindering the timely closure of projects.

29. ROAS attributed these shortcomings to a number of factors, including system/technical issues that often made PAAS inaccessible and unavailable for timely entry of performance data. There was also a perception amongst staff that PAAS did not produce feedback/reports that could be extracted from the system for use at the country level to facilitate effective monitoring, hence the reluctance by staff to enter

performance data in the system. Instead, country programmes produced monitoring reports in accordance with their respective donor requirements. ROAS also indicated that resource constraints relating to staffing put pressure on available staff to prioritize efforts on substantive activities that had a direct impact on project delivery.

30. OIOS acknowledges the problems faced by ROAS, most of which stem from the lack of appropriate staffing to support an operation that has substantially grown in size during the last five years. This situation should improve as a result of implementing recommendation 1 above. By not complying with the required project monitoring, evaluation and closure practices, there is a risk that ROAS may be unable to demonstrate to donors the effectiveness of its projects and the achievement of their intended outcomes.

(2) UN-Habitat ROAS should establish an appropriate mechanism to: (a) strengthen its monitoring and evaluation practices in accordance with applicable guidelines; (b) ensure the completeness of data in the Project Accrual and Accountability System; and (c) ensure that all projects are closed in accordance with applicable guidelines.

UN-Habitat accepted recommendation 2 and stated that it was working on enhancing the reporting module of PAAS to enable generation of streamlined reports on the project and programme outputs and results. ROAS accepts to take appropriate measures to address the recommendation. While ROAS implemented, monitored and closed projects in accordance with applicable policies and procedures, it accepts to update PAAS accordingly and carry out project evaluations when applicable. Recommendation 2 remains open pending receipt of evidence of completeness of data, closure of projects and enhancements in the reporting module in PAAS.

B. Coordinated management mechanisms

Need for closer involvement of UN-Habitat headquarters in the formulation and approval of new projects

31. The UN-Habitat project-based management manual (2012) requires branches and out posted offices to adopt a collaborative and interactive process in the formulation of new projects. One mechanism for achieving this was through the Headquarters Project Advisory Group (HPAG) and the Regional Project Advisory Group (RPAG), which were established to perform quality and peer reviews and approve new projects. HPAG reviewed and approved new projects initiated at headquarters in Nairobi, while RPAG reviewed and approved projects that originated from regional offices. To ensure that headquarters input is considered in RPAG processes, headquarters representation is required in all RPAG meetings where new projects are approved.

32. The RPAG processes at ROAS did not always work as designed. Out of 16 new projects, in six instances projects were discussed by PAG only after the respective donor agreements had been signed. This led to a perception that ROAS only sought the input and expertise of headquarters after it had substantially agreed upon the project implementation arrangements with donors.

33. ROAS attributed the deficiencies to staff constraints, time pressures, and the operating environment that occasionally necessitated quick response to donor requests for new projects.

34. While acknowledging the circumstances and challenges experienced by ROAS in complying with the internal administrative processes, there is a need to balance the quest to secure new funding and expand its portfolio with the risks associated with taking on new projects without fully complying with the criteria and standards established by the organization.

(3) UN-Habitat ROAS should ensure that all projects are submitted through the concerned Project Advisory Group prior to finalizing with the donor to maintain the integrity of the project review process. Any exceptions on grounds of emergency should be documented and supported by appropriate justification.

UN-Habitat accepted recommendation 3 and stated that it will establish an appropriate mechanism to ensure full compliance with the PAG process requirements. Recommendation 3 remains open pending receipt of evidence that a mechanism has been established to ensure compliance with the PAG process.

C. Regulatory framework

Procurement actions were performed in accordance with applicable procedures

35. Procurement actions are guided by the Procurement Manual and Financial Regulation 5.12, which require the following general principles to be considered when performing procurement functions of the United Nations: (a) best value for money; (b) fairness, integrity and transparency; (c) effective international competition; and (d) the interest of the United Nations. The Procurement Manual also provides guidance on procurement of goods for amounts above \$4,000 and up to \$40,000.

36. OIOS review of 12 procurement cases valued at \$46,000 showed that solicitation, authorization and contract documents were performed in accordance with applicable procedures. OIOS therefore concluded that controls relating to procurement were in place and working satisfactorily.

Need for ROAS to liaise with DSS to resolve outstanding recommendations

37. The United Nations Security Management policy sets out MOSS for United Nations field operations globally. MOSS outlines the minimum standards of equipment, structures and procedures required to ensure that essential security practices are established and maintained at each United Nations duty station. DSS performs various compliance assessments to field offices to determine their compliance with MOSS.

38. While ROAS had taken steps to address the deficiencies pointed out in the DSS compliance assessments, some DSS recommendations still remained to be addressed to make the regional and country offices fully compliant with MOSS. At the time of the audit, three out of 12 sub-offices under ROAS were not fully compliant with MOSS due to a number of reasons, including some that were beyond the control of ROAS. ROAS indicated that it had taken steps to diligently implement and resolve outstanding recommendations that were within its control.

39. While acknowledging the various actions taken by ROAS, the need to fully implement DSS recommendations cannot be overemphasized due to their potential implications on staff security.

(4) UN-Habitat ROAS should seek guidance from DSS to resolve the outstanding recommendations relating to MOSS compliance.

UN-Habitat accepted recommendation 4 and stated that ROAS takes security compliance seriously. ROAS has dedicated financial and staff resources to ensure full MOSS compliance in 11 offices. Efforts are being made to close the outstanding gaps in the remaining three offices, which includes temporary closure of the Libya Tripoli Office due to the current security situation.

Recommendation 4 remains open pending receipt of evidence of guidance received from DSS to resolve the outstanding recommendations relating to MOSS compliance.

IV. ACKNOWLEDGEMENT

40. 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 Regional Office for Arab States

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UN-Habitat should review the allocation of core resources to ROAS with a view to providing ROAS with appropriate resources to manage its operations effectively.	Important	O	Receipt of evidence of appropriate resource allocation to ROAS in line with the revised basis of allocation of core resources to regional offices.	31 December 2016
2	UN-Habitat ROAS should establish an appropriate mechanism to: (a) strengthen its monitoring and evaluation practices in accordance with applicable guidelines; (b) ensure the completeness of data in the Project Accrual and Accountability System; and (c) ensure that all projects are closed in accordance with applicable guidelines.	Important	O	Receipt of evidence of completeness of data, closure of projects and enhancements in the reporting module in PAAS.	30 June 2016
3	UN-Habitat ROAS should ensure that all projects are submitted through the concerned Project Advisory Group prior to finalizing with the donor to maintain the integrity of the project review process. Any exceptions on grounds of emergency should be documented and supported by appropriate justification.	Important	O	Receipt of evidence that a mechanism has been established to ensure compliance with the PAG process.	30 June 2016
4	UN-Habitat ROAS should seek guidance from DSS to resolve the outstanding recommendations relating to MOSS compliance.	Important	O	Receipt of evidence of guidance received from DSS to resolve the outstanding recommendations relating to MOSS compliance.	31 July 2016

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

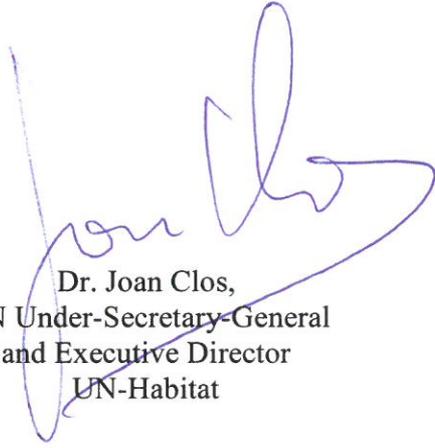
UN HABITAT
UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME
Programme des Nations Unies pour les établissements humains
Programa de las Naciones Unidas para los Asentamientos Humanos
OFFICE OF THE EXECUTIVE DIRECTOR

Nairobi, 10 December 2015

Dear Mr. Kumar,

I am pleased to present below UN-Habitat comments and action plan on the audit observations and recommendations included in the draft report on the Audit of the United Nations Human Settlements Programme Regional Office for Arab States (Assignment No.AA2014/250/04).

I would like to take this opportunity to thank the Office of Internal Oversight services (OIOS) for the services it provided to UN-Habitat in completing the above-mentioned audit.



Dr. Joan Clos,
UN Under-Secretary-General
and Executive Director
UN-Habitat

Gurpur N. Kumar
Deputy Director
Internal Audit Division, OIOS

Management Response

Audit of the United Nations Human Settlements Programme Regional Office for Arab States

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UN-Habitat should review the allocation of core resources to ROAS with a view to providing ROAS with appropriate resources to manage its operations effectively.	Important	Yes	Director, Management and Operations Division	31 December 2016	As stated in paragraph 26 of the report, UN-Habitat accepts the recommendation. UN-Habitat will review the criteria and the basis of allocation of core resources to regional offices in line with its zero-based budgeting exercise which aligns resources with strategic and operational priorities.
2	UN-Habitat ROAS should establish an appropriate mechanism to: (a) strengthen its monitoring and evaluation practices in accordance with applicable guidelines; (b) ensure the completeness of data in the Project Accrual and Accountability System (PAAS); and (c) ensure that all projects are closed in accordance with applicable guidelines.	Important	Yes	Director (a.i.) Regional Office for Arab States	30 June 2016	UN-Habitat is working on enhancing the reporting module of the PAAS system to enable generation of streamlined reports on the project and programme outputs and results. ROAS accepts to take appropriate measures to address this recommendation. While ROAS implemented, monitored and closed projects in accordance with applicable policies and procedures, it accepts to update PAAS accordingly and carry out project evaluations when applicable.
3	ROAS should ensure that all projects are submitted through the concerned Project	Important	Yes	Director (a.i.) Regional Office	30 June 2016	UN-Habitat accepts the recommendation. ROAS will establish an appropriate mechanism to ensure full

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.

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	Advisory Group (PAG) prior to finalizing with the donor to maintain the integrity of the project review process. Any exceptions on grounds of emergency should be documented and supported by appropriate justification.			for Arab States		compliance with the PAG process requirements.
4	UN-Habitat ROAS should seek guidance from DSS to resolve the outstanding recommendations relating to MOSS compliance.	Important	Yes	Director (a.i.) Regional Office for Arab States	31 July 2016	ROAS takes security compliance seriously. ROAS has dedicated financial and staff resources to ensure full MOSS compliance in eleven (11) offices. Efforts are being made to close the outstanding gaps in the remaining three (3) offices, which includes temporary closure of the Libya Tripoli office due to the current security situation.