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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE  
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

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

*David, Mag*  
**CONFIDENTIAL**  
29 December 2011  
*New York, N.Y.*  
*N.R-Eva*

UN-HABITAT, H.O.  
Office of the  
Executive Director  
Action

To: *M. Robleh, F. Detorche*  
Cc: *P. Taylor, L. Conrreux, A. Badiane, N.R-Eva*

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Initials *ME*  
File *[Signature]*

REFERENCE: IAD: 11- 00777  
*For follow up.*

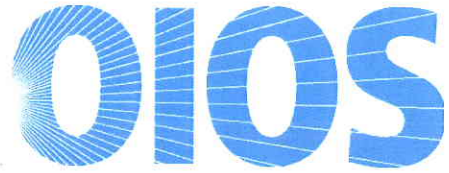
FROM: Fatoumata Ndiaye, Director  
DE: Internal Audit Division, OIOS

SUBJECT: Assignment no. AA2011/250/02 – Audit of the UN-HABITAT programme in Palestine  
OBJET:

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

1. Attached please find the final report on the above-mentioned audit.
2. Annex I shows the status of recommendations.
3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly. OIOS will also report to the Secretary-General quarterly for critical recommendations and annually for important recommendations.

cc: Mr. Alioune Badiane, Director, Regional Office for Arab and African States, UN-HABITAT  
Mr. Antoine King, Director, Programme Support Division, UN-HABITAT  
Mr. Mohamed Robleh, Audit Focal Point, UN-HABITAT  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Mr. Rohan Wijeratne, Board of Auditors  
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit  
Mr. Moses Bamuwamye, Executive Secretary, IAAC  
Mr. Zachary Ikiara, Chief, Oversight Support Unit, DM  
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS  
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS



Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Audit of the UN-HABITAT programme in Palestine**

**Overall results relating to the effective and  
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**29 December 2011**

**Assignment No. AA2011/250/02**

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## AUDIT REPORT

### Audit of the UN-HABITAT programme in Palestine

#### BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-HABITAT) in Palestine.
2. The Governing Council Resolution HSP/GC/19/18 dated 9 May 2003 established the Special Human Settlements Programme for the Palestinian People (SHSPPP) and its related technical cooperation trust fund. This resolution has been renewed periodically within the technical mandate of UN-HABITAT. The technical mandate is to support developing countries, least developed countries, countries with economies in transition and countries emerging from conflict in their capacity-building efforts geared towards achieving internationally agreed development goals and the outcomes of United Nations conferences and summits.
3. The SHSPPP is based in East Jerusalem and has a portfolio of seven projects with a total budget of \$18.9 million. The projects are in the Gaza Strip, East Jerusalem and the rest of the West Bank area. The focus of SHSPPP is on planning, land and housing issues and strengthening the capacity of Palestinian institutions dealing with housing and settlements as well as addressing immediate needs of selected vulnerable communities, through timely projects with a capital investment component. The strategic focus of the programme has been divided into two components: (a) early recovery and reconstruction in Gaza Strip which focuses on the provision of technical support at neighbourhood level and direct intervention related to reconstruction; and (b) policy, planning and capacity development support which focuses on housing, planning and development, municipal capacity development for urban planning and management and planning support facility.
4. The SHSPPP has a staff complement of seven comprising of the chief technical advisor, one project manager, two deputy team leaders, two engineers and one administrative / finance associate. The support function of the programme was delegated to United Nations Development Programme (UNDP) under the general UNDP cooperation agreement with other UN Agencies.
5. Comments provided by UN-HABITAT are incorporated in *italics*.

#### OBJECTIVE AND SCOPE

6. 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.
7. 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 **effective and efficient implementation of the UN-HABITAT programme in Palestine**.
8. The audit was identified because of the high risks faced by UN-HABITAT regarding its ability to ensure that there were necessary funds, tools and flexibility to implement effectively and efficiently the UN-HABITAT programme in Palestine.

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

(a) Mandates and delegation of authority system – controls that provide reasonable assurance on the clarity of authority, roles and responsibilities of UN-HABITAT and UNDP to ensure effective and efficient programme delivery;

(b) Regulatory framework – controls that provide reasonable assurance that policies and procedures exist to guide the operations of the programme in budget and finance, procurement, travel and property management and inventory;

(c) Fund raising strategy and donor funding acceptance policy – controls that provide reasonable assurance that fund-raising and acceptance of donations conform to the policies of the UN-HABITAT and that the use of such funds is in line with programme priorities;

(d) Programme and financial management reporting system – controls that provide reasonable assurance that a system exists to report programme performance, including financial performance, timely, accurately and completely; and

(e) Security management systems – controls that provide reasonable assurance that security management systems are commensurate to the safety and security risks in UN-HABITAT.

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

11. OIOS conducted this audit from 1 July 2011 to 7 September 2011. The audit covered the period from 1 January 2007 to 30 June 2011.

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.

## AUDIT RESULTS

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

14. The overall rating is based on the assessment of key controls presented in Table 1 below. The implementation of the mandate of the SHSPPP was progressing satisfactorily. Although SHSPPP experienced some funding constraints, there was a concerted effort to raise funding and diversify the funding sources from a single donor. As a result, three additional donors subsequently committed substantial funds to the programme.

15. The SHSPPP also had an effective mechanism in place for reporting project implementation to stakeholders. The reports to donors were prepared in accordance with the donors’ requirements and were submitted within the donors stipulated timelines. However, a charge for evaluation and monitoring was applied to all projects including projects already in the implementation stage where the budget (without

the 2 per cent surcharge) had already been agreed with donors. This put a further strain on the already scarce financial resources available for implementation of the projects. UN-HABITAT is in the process of drafting a cost allocation and recovery policy which will address this matter.

**Table 1: Assessment of key controls**

	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations, and rules
<b>Effective and efficient implementation of the UN-HABITAT programme in Palestine</b>	(a) Mandates and delegation of authority system	Satisfactory	Not applicable	Not applicable	Satisfactory
	(b) Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(c) Fund raising strategy and donor funding acceptance policy	Satisfactory	Not applicable	Not applicable	Satisfactory
	(d) Programme and financial management reporting system	Satisfactory	Satisfactory	Not applicable	Partially satisfactory
	(e) Security management systems	Satisfactory	Not Applicable	Satisfactory	Satisfactory

#### **Fund raising strategy and donor funding acceptance policy**

16. The donor funding base for the SHSPPP was not diversified. The SHSPPP had a portfolio of 7 projects with a total budget of \$18.9 million, of which 82 per cent was funded by one donor. Over 80 per cent of the portfolio was linked to concrete building initiatives. The Chief Technical Advisor (CTA) had drafted and finalized a fundraising strategy which identified the main objectives and key elements. According to management, the strategy is increasingly being assisted by UN-HABITAT Headquarters and is yielding positive results, as three additional donors had committed funds amounting to \$5.5 million.

#### **Programme and financial management reporting system**

17. In 2007, UN-HABITAT introduced a surcharge of 2 per cent of project costs to cover the cost of project monitoring and evaluation, in addition to the Programme Support Charge (PSC) of 8 per cent levied on the total cost of each project and budgeted accordingly. This additional charge of 2 per cent was applied to all projects including projects already in the implementation stage where the budget (without the 2 per cent surcharge) had already been agreed with donors. For the SHSPPP programme, the additional 2 per cent charge amounted to \$116,667 and \$28,867 for project numbers P007 and P010 respectively. There was no evidence that UN-HABITAT informed the donor or sought the donor's agreement on the matter. This might be viewed as a lack of transparency, and may result in a reduction of the funds made available to the projects, thereby having a negative impact on project implementation. The UN-HABITAT staff in Jerusalem explained that since the surcharge was introduced, they have been

identifying savings under other budget lines to accommodate the new requirement. While the need to charge projects with the costs incurred (direct or indirect) for the monitoring and evaluation of those projects is acknowledged, it is essential for transparency purposes that such costs be agreed with donors under the terms and conditions of the Memorandum of Understanding.

**(1) The Executive Director of UN-HABITAT should ensure that the additional project support cost of 2 per cent is disclosed in all future project documents which form part of the donor agreements.**

*UN-HABITAT accepted recommendation 1 and stated that since 2003, UN-HABITAT projects have contributed 2 percent of budgeted expenditure to cover monitoring and evaluation activities to ensure that lessons learned and best practices are drawn. In 2012, UN-HABITAT would introduce a new cost allocation and recovery policy for all new projects in line with recommendations from the United Nations high level management committee. Recommendation 1 remains open pending confirmation of issuance of the new cost allocation and recovery policy.*

#### ACKNOWLEDGEMENT

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

  
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Ms. Fatoumata Ndiaye, Director  
Internal Audit Division, OIOS

**STATUS OF RECOMMENDATIONS**  
**Audit of UN-HABITAT Programme in Palestine**

Recom. no.	Recommendation	Risk category	Risk rating	C/ O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	The Executive Director of UN-HABITAT should ensure that the additional project support cost of 2 per cent is disclosed in all future project documents which form part of the donor agreements.	Compliance	Important	O	Receipt of a copy of the new cost allocation and recovery policy upon issuance.	31 December 2012

1. C = closed, O = open
2. Date provided by UN-HABITAT in response to recommendations.