



INTERNAL AUDIT DIVISION

REPORT 2016/155

Audit of the United Nations Human Settlements Programme project management process

Established policies and procedures need to be further strengthened, particularly in project approval, monitoring, reporting and accountability

12 December 2016
Assignment No. AA2016/250/01

Audit of the United Nations Human Settlements Programme project management process

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the project management process in the United Nations Human Settlements Programme (UN-Habitat). The audit covered the period from January 2014 to December 2015 and included risk management framework, responsibilities and accountabilities, project design and approval, project implementation, project performance monitoring and closure, project reporting & evaluation, coordination, project staff management, partnership management, and policies and procedures.

UN-Habitat had established policies and procedures governing the project management process. There was a need to further strengthen the process, particularly in project approval, monitoring, reporting and accountability.

OIOS made 11 important recommendations. To address issues identified in the audit, UN-Habitat needed to:

- Ensure that all project documents include risk analysis and mitigation measures, and are reviewed by the Project Approval Group prior to signing of agreements with donors;
- Strengthen the Programme Accountability Framework by providing more details on the roles, responsibilities and accountabilities of staff in the project management cycle;
- Consolidate, update and communicate the applicable project approval procedures and establish a mechanism to ensure that they are complied with;
- Strengthen controls by requiring evidence of both substantive and financial approvals prior to creation of donor grants and budget releases in Umoja;
- Review the Project Accrual and Accountability System to identify and resolve the bottlenecks and enhance its efficiency and effectiveness as a project management tool;
- Establish a mechanism to ensure that project performance is monitored so that projects at risk are systematically identified and remedial action is taken in a timely manner;
- Take steps to ensure prompt financial closure of all projects in accordance with established procedures;
- Ensure that necessary resources are provided for in project budgets to increase the number of impact assessments/evaluations to better assess and demonstrate the impact of its projects;
- Develop a strategy and long-term solution to reduce its reliance on consultants who were performing the functions of supervisors and regular staff;
- Update the Programme and Project Cycle Management Manual to reflect the changes in the operational policies and procedures; and
- Update, consolidate and implement the new partnership policy and procedures for effective management of partners.

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

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Audit of the United Nations Human Settlements Programme project management process

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-Habitat) project management process.
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 the audit in August 2016, the mandate of UN-Habitat derived from the Habitat Agenda, adopted by the United Nations Conference on Human Settlements (Habitat II) held in Istanbul, Turkey, in 1996.
3. UN-Habitat activities are funded by donations into its Technical Cooperation Trust Funds and Foundation Funds. Technical cooperation activities are undertaken mainly in partnership with governments in recipient countries. UN-Habitat undertakes technical cooperation projects, such as the construction of water and sanitation facilities, shelter and other works. At the normative level, it seeks to influence governments and non-governmental actors in formulating, adopting, implementing and enforcing policies, norms and standards conducive to sustainable human settlements and sustainable urbanization. The Programme Division has the responsibility for coordinating the programme and project management at UN-Habitat. Between January 2014 and June 2016, UN-Habitat implemented 465 projects valued at \$1,099 million.
4. According to the work programme and budget for 2014-2015, UN-Habitat had a budget of \$392 million comprising \$298 million earmarked resources and \$94 million core resources. Of the total requirements of \$392.4 million, \$70 million was required to fund 281 core posts. As per the 2016-2017 work plan and budget these staffing levels were projected to remain the same in the 2016-2017 biennium. In addition to the core posts, UN-Habitat recruited over 2,000 project staff funded from earmarked funds to support the delivery of projects at the country level.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the project management process at UN-Habitat.
6. This audit was included in the 2016 risk-based work plan of OIOS due to the risk that deficiencies in the project management process may adversely affect effective implementation of projects.
7. OIOS conducted this audit from May to August 2016. The audit covered the period from January 2014 to December 2015. Based on an activity-level risk assessment, the audit covered higher and medium risks in project management, which included: risk management and accountability, project management practices, project staff management, and policies and procedures for project management.
8. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical reviews of data; and (d) judgmental sample testing.

III. OVERALL CONCLUSION

9. UN-Habitat had established policies and procedures governing the project management process. There was a need to further strengthen the process by: (i) systematically analyzing and mitigating project risks; (ii) strengthening the programme accountability framework by providing more details on roles, responsibilities and accountabilities of staff; (iii) strengthening controls relating to project approval, monitoring, reporting and financial closure; (iv) ensuring that necessary resources are provided for project evaluations; (v) developing a strategy and long-term solution to reduce reliance on consultants performing the functions of supervisors and regular staff; and (vi) updating the programme and project cycle management manual as well as consolidating the policies and procedures for implementing partners.

IV. AUDIT RESULTS

A. Project risk management and accountability framework

Project risks need to be systematically analyzed and mitigated

10. According to the UN-Habitat Results Based Management (RBM) Handbook, a risk mitigation strategy should be defined for each risk to minimize the potential impact of risks on the achievement of results. Programmes and projects are expected to manage the risks related to their activities. This element was also built into the UN-Habitat project template. In addition, the 2012 project management policy requires the donor agreement to be signed at the end of the review process after the project document has been approved both substantively and financially and in line with the decisions of the Project Approval Group (PAG).

11. OIOS review of a sample of 12 donor agreements and project documents showed that five project documents did not have a proper risk analysis with risk mitigation strategies at project level as required. Furthermore, 26 out of 83 projects reviewed by the headquarter PAG in 2015 were approved after the agreements had been signed with donors. The PAG substantive review prior to signing of the funding agreements acts as a control to ensure that risk mitigation strategies are identified during project formulation in line with the results based management approach. This meant that changes could not be made to binding signed funding agreements and subsequent PAG review/approval was merely for administrative purposes and recording in the Project Accrual and Accountability System (PAAS).

12. According to the Programme Division, competition for donor funding made it difficult to comply with the 2012 policy in every case. The Programme Division planned to introduce a procedure for such cases whereby the logical framework of donor agreements would be submitted for review instead of the entire agreement to ensure that PAG reviews and approves the logical framework prior to signing donor agreements. This would ensure compliance with the policy and that the review and approval of projects does not become a mere formality.

13. The absence of risk analysis in project documents and PAG review at project level as mitigation measures could result in inability to achieve project goals and objectives, and potential loss of funding opportunities.

(1) UN-Habitat should ensure that all project documents: (i) include risk analysis and mitigation measures; and (ii) are reviewed by the Project Approval Group prior to signing of agreements with donors in accordance with established policies and procedures.

UN-Habitat accepted recommendation 1 and stated that it was continuing to roll out its Enterprise

Risk Management (ERM). Project risks will be systematically analyzed, mitigated and monitored. Furthermore, UN-Habitat will strengthen its management mechanisms, including the PAG, to ensure project documents are properly reviewed prior to signing of agreements with donors in accordance with established policies and procedures. Recommendation 1 remains open pending receipt of evidence that project documents include risk analysis and mitigation measures and are reviewed by the PAG prior to signing of agreements with donors.

Need to implement the programme accountability framework

14. UN-Habitat drafted the Programme Accountability Framework (PAF) in June 2015 to foster accountability and transparency. UN-Habitat staff were expected to exercise their roles and responsibilities in accordance with this framework which was modeled in compliance with the United Nations Secretariat accountability system.

15. OIOS reviewed the PAF and noted the following:

- i) The PAF only specifically mentioned the responsibilities and accountability for senior management from the Director and Branch Coordinator up to the Executive Director. It also only indicated who they were accountable to and not what they were accountable for.
- ii) The PAF did not provide any guidance regarding how accountability issues should be dealt with for consultants working at UN-Habitat, many of whom were performing duties and responsibilities normally performed by staff.

16. OIOS assessed that the PAF needed further strengthening by better defining the roles, responsibilities and accountabilities of staff in the project management cycle before its implementation. Implementation of an effective accountability framework is necessary to ensure clarity of roles and responsibilities, and enhance accountability in the implementation of projects.

(2) UN-Habitat should strengthen the Programme Accountability Framework by providing more details on the roles, responsibilities and accountabilities of staff in the project management cycle.

UN-Habitat accepted recommendation 2 and stated that it will update its PAF by providing more details on the roles, responsibilities and accountabilities of staff in the project management cycle. Recommendation 2 remains open pending receipt of the updated PAF.

B. Project management practices

Need to consolidate and communicate project approval procedures

17. The UN-Habitat Project Review Committee (PRC) Guide provided guidance on the procedures to be followed when approving projects.

18. The PAG (which succeeded the PRC) had produced a document outlining the procedures for review of emergency and urgent projects. OIOS reviewed this document and noted that it was not clear on the process to be followed by project leaders to fast track the approval process, how the application would be processed, and how PAG decisions would be communicated to the applicant. In addition, the document still bore the title ‘proposed criteria’ which made it difficult to enforce. Emergency procedures therefore needed to be clarified and communicated to staff.

19. Further, projects under the Water Trust Fund were not being channeled through the PAG for approval. Between 2014 and 2016, there were 20 projects valued at \$18.3 million. UN-Habitat explained that a special set of procedures was being followed whereby only the fund's umbrella project, valued at \$60 million, was approved every five years, whereas individual projects subsequently created under the umbrella project were not required to be approved individually. UN-Habitat also explained that the exceptional procedures were more efficient and that the projects created under the umbrella project were aligned to the Trust Fund. However, these procedures were not documented and there was no evidence of review to ensure that the projects were aligned to the umbrella Trust Fund.

20. The above weaknesses were attributed to lack of updated project approval procedures. Lack of clarity and inadequately documented procedures can lead to approval of projects that are not aligned with the results expected in the programme of work and dilution of accountability over project implementation.

(3) UN-Habitat should consolidate, update and communicate the applicable project approval procedures and establish a mechanism to ensure that they are complied with.

UN-Habitat accepted recommendation 3 and stated that all procedures related to project approval will be consolidated and compliance will be enforced. Recommendation 3 remains open pending receipt of: (i) updated and consolidated project approval procedures; and (ii) evidence of the steps taken to ensure compliance.

Need to strengthen controls over financial approval of projects

21. According to the 2012 Project Based Management Policy, the Office of Management (Management and Operations Division after restructuring) should provide budget allotments only after the PAG substantively reviews and approves the projects.

22. OIOS reviewed a sample of 86 projects out of 465 and noted that there were 21 projects whose budgets were released in Umoja without evidence of PAG approval. Of these, 20 projects had commenced expenditure of the funds including direct expenditure and commitment of funds. OIOS noted that PAG approval was not part of the documentation required by Management and Operations Division prior to creation of donor grants and budget releases in Umoja.

23. In its January 2015 report on evaluation of UN-Habitat, OIOS Evaluation and Inspection Division had recommended embedding quality assurance into PAAS so that it becomes impossible for projects to be approved and access funds until all elements in the approval checklist are satisfactory. Accordingly, beginning January 2016, UN-Habitat created the PAG checklist and embedded it into PAAS. While the recommendation had been implemented, the lack of a properly integrated approval system where substantive and financial approval were linked resulted in budgets being released and funds being spent without evidence of PAG approval. Finance staff in Management and Operations Division explained that the Division was currently drafting standard operating procedures to address this weakness.

24. As a result of this control weakness, project funds were being spent prior to PAG approval, which could result in poorly designed projects being implemented, and inability to achieve the expected results.

(4) UN-Habitat should strengthen controls by requiring evidence of both substantive and financial approvals prior to creation of donor grants and budget releases in Umoja.

UN-Habitat accepted recommendation 4 and stated that it has sent instructions to concerned staff that evidence of both substantive and financial approvals should be submitted prior to creation of

donor grants and budget releases in Umoja. Recommendation 4 remains open pending confirmation that both substantive and financial approvals are submitted prior to creation of donor grant and budget releases in Umoja.

Need to update PAAS to enhance its efficiency and effectiveness as a project management tool

25. In 2008 UN-Habitat implemented PAAS, to track its projects through project design, approval, monitoring and reporting. According to the UN-Habitat 2012 project based management policy, PAAS supports project management and helps to enhance accountability, transparency, productivity and efficiency in the management of the agency's project portfolio. Project leaders are responsible for the overall management of projects while the project administrators are responsible for monitoring the financial aspects of projects and keeping the project leaders informed of any shortcomings. PAAS system was designed to produce accurate information and reports about individual projects and hence, timely input of data by responsible managers was required.

26. OIOS sampled 50 out of 465 projects implemented between 2014 and 2015 and noted that 17 out of 50 had incomplete project approval checklists and 36 out of 50 lacked PAG meeting minutes. All 50 projects did not have actual progress information on performance of projects, although information on expected accomplishments and outputs was available. PAAS had not been updated which made it difficult to confirm accuracy of data contained therein. Updating the system was vital to facilitate effective tracking of projects throughout the project cycle.

27. The weaknesses in updating PAAS were attributed to the following causes:

- i) Inadequate user support to address user concerns in a timely manner: UN-Habitat conducted a PAAS survey in July 2015 where users provided feedback. Users highlighted over 20 specific challenges they faced while using the system including the system not being user friendly and lack of alerts, among others. However, there was no evidence of feedback to users or an action plan on how their concerns were being addressed.
- ii) Inadequate measures or procedures to enforce the use of PAAS: The system did not show pertinent details such as the preparer of the information in PAAS, the role and name of the reviewer to show that the project information was checked for quality prior to approval, and name of approver although the system provided for role of approver without a name of the person approving being shown. Only the system administrators are able to identify staff who approved documents in PAAS.
- iii) Inadequate follow-up training for staff required to use PAAS: UN-Habitat statistics indicated that by December 2014, 255 staff had been trained since PAAS was introduced. However, the PAAS implementation budget and expenditure report showed that no budget was allocated for 2015 because management focused on Umoja training and it was not clear whether new staff joining the organization had been trained on the use of PAAS.

28. By not using the PAAS system as intended, the organization lost an opportunity to use the system as a project management tool and to produce accurate data and reports as required. OIOS is of the opinion that UN-Habitat needs to review PAAS and identify the bottlenecks that need resolving to enhance its efficiency and effectiveness including its viability vis-à-vis Umoja system.

(5) UN-Habitat should review the Project Accrual and Accountability System to identify and resolve the bottlenecks and enhance its efficiency and effectiveness as a project management tool.

UN-Habitat accepted recommendation 5 and stated that PAAS has been reviewed and a task group has been formed to overview the rectification and enhancement process. A road map has been put in place identifying key milestones with their delivery dates. Recommendation 5 remains open pending receipt of evidence of enhancements made to PAAS.

Project performance monitoring required improvement

29. According to the 2012 Project Based Management Policy, project leaders were required to enter all information pertaining to their respective projects into PAAS to facilitate performance monitoring and risk identification. A performance monitoring system should also identify those projects which are at risk of not being implemented to enable timely corrective action.

30. During the review of a sample of 50 projects, information on slow or non-performing projects was not readily available as monitoring and review were done outside of PAAS and only project leaders had such information. Without updating project information in PAAS, it was difficult to ascertain which projects had delays. For example, out of the 50 projects sampled, OIOS established that there were delays in implementing six projects. However, the delays were attributed to political crises and insecurity in the countries of operation.

31. Further, there was no evidence that project staff were alerted when projects were at risk at any time during the project management cycle. UN-Habitat staff explained that a formal mechanism was not yet in place but the organization was in the process of implementing risk management at project level where it would be considered.

32. Lack of a functioning project performance monitoring system could result in non-implementation or partial implementation of project activities leading to non-achievement of expected results.

(6) UN-Habitat should establish a mechanism to ensure that project performance is monitored so that projects at risk are systematically identified and remedial action is taken in a timely manner.

UN-Habitat accepted recommendation 6 and stated that the recommended mechanism will be devised as part of the ongoing implementation of ERM in UN-Habitat. Recommendation 6 remains open pending receipt of evidence that a mechanism has been established to ensure that project performance is monitored and remedial action taken in a timely manner.

Financial closure of projects needed to be timely

33. UN-Habitat designed a project closure report template for completion by all projects to be closed in a given year. According to a memorandum dated 10 September 2015 addressed to Branch Coordinators and Regional Directors, the Programme Division directed that all projects be financially closed within 60 days of operational closure. In another memorandum dated 17 September 2015, the Director, Programme Division requested that project closure reports be submitted to the Programme Division by mid-October 2015 for projects due to close in 2015. Further, the PAG had approved a shortened project closure template.

34. As of November 2015, only 13 out of 144 projects slated for closure in 2015 submitted closure reports. UN-Habitat could not explain why the response rate for closure of projects was so low. OIOS reviewed 72 operationally closed projects and noted that 69 were not financially closed within the 60 days stipulated. Thirty-three out of 69 projects were still awaiting administrative and financial closure beyond

24 months. The delays in closing the projects were mainly attributed to challenges in migrating data from the old Integrated Management Information System to Umoja.

35. Delays in closing projects could result in: (a) tied up resources not being reprogrammed to other projects; (b) additional administrative effort for staff to review and resolve inquiries; and (c) the perception that UN-Habitat is unable to deliver its projects in a timely manner, which could negatively impact the organization and could affect donor funding of future projects.

(7) UN-Habitat should take steps to ensure prompt financial closure of all projects in accordance with established procedures.

UN-Habitat accepted recommendation 7 and stated that it will establish mechanisms to ensure prompt financial closure of all projects in accordance with established procedures. Recommendation 7 remains open pending receipt of evidence that mechanisms are in place to ensure prompt financial closure of projects.

Need to increase the number of impact evaluations

36. UN-Habitat 2013 Evaluation Policy lists impact evaluations as one of the priorities for its evaluation of projects. Impact evaluations assess the specific changes brought by UN-Habitat interventions. Demonstrating impact to donors was also key to fundraising as donors were looking for partners whose interventions had demonstrable impact.

37. OIOS reviewed a sample of 10 evaluation reports posted on the UN-Habitat website. While all reports had a section on ‘impact’, only one of the 10 evaluation reports contained evidence of detailed interview results with different municipalities as part of impact evaluation. The remaining nine reports merely contained either i) comments by UN-Habitat staff regarding impact; or ii) ‘likely impact’ of the projects; or iii) observations by the evaluation team with no tangible evidence to support the statements.

38. UN-Habitat confirmed that while assessing impact was part of the methodology of the evaluation unit, the approach in use was not scientific. There were many actors including Non-Governmental Organizations who often participated on the same projects and the attribution of impact to UN-Habitat required a scientific approach with adequate resources and capacity, both of which were limited at UN-Habitat.

39. As a result, UN-Habitat was not able to properly demonstrate the impact of its projects, which could adversely affect its ability to attract sufficient donor funding.

(8) UN-Habitat should ensure that necessary resources are provided for in project budgets to increase the number of impact assessments/evaluations to better assess and demonstrate the impact of its projects.

UN-Habitat accepted recommendation 8 and stated that it will provide guidance in project design. Final decisions on impact assessments will rest with donors and clients. Recommendation 8 remains open pending receipt of evidence that projects have set aside necessary resources in their budgets for impact assessments/evaluations.

C. Project staff management

Need to develop strategies for long-term regular staffing solutions for functions performed by consultants

40. Administrative Instruction ST/AI/2013/4 on Consultants and Individual Contractors allows the Organization to utilize consultants and individual contractors to respond quickly, flexibly and effectively to organizational priorities. However, consultants may not perform the work of regular and continuing staff members. A consultant must have special skills or knowledge for which there was no continuing need in the Organization. Where an individual contractor is temporarily engaged to perform functions similar to those of a staff member, a clear strategy was required for a long-term regular staffing solution.

41. Furthermore, consultants and individual contractors may not perform representative, certifying, approving and/or supervisory functions or be involved in decisions affecting the status, rights and entitlements of staff members. OIOS review of terms of reference for 19 consultants indicated the following:

- Twelve consultants were engaged in supervisory and/or representational work or had approval functions;
- Two consultants were engaged in budget and financial management responsibilities;
- One consultant was engaged in assisting in beneficiary selection process; and
- Two consultants were engaged in facilitation of interviews with the media.

42. The functions stated above are supposed to be performed by regular staff members and are explicitly not allowed for consultants by the ST/AI. Eight out of 20 sampled consultants had been performing their functions for between two and seven years. Information on consultants was generally limited and difficult to obtain with no central repository within UN-Habitat.

43. There was no evidence of a strategy for a long-term solution to the staffing situation, as required by ST/AI/2013/4. UN-Habitat needs to develop such a strategy to ensure compliance with the ST/AI.

(9) UN-Habitat should develop a strategy and long-term solution to reduce its reliance on consultants who were performing the functions of supervisors and regular staff.

UN-Habitat accepted recommendation 9 and stated that it does not have a practice of placing consultants into supervisory and/or representational work. However UN-Habitat will review persons on consultancy contracts and if they do indeed occupy roles inconsistent with the directions of the ST/AI, they will be removed. Recommendation 9 remains open pending receipt of evidence that a long-term solution has been developed to ensure compliance with ST/AI/2013/4.

D. Policies and procedures

Need to update the programme and project cycle management manual

44. Maintaining up to date policies and procedures ensures that staff have access to guidelines that are current and in line with the operating environment. Periodic updating of guidelines was important to ensure that the organization's approach to programme and project management remained harmonized with the evolving operating environment and stakeholder needs.

45. The existing UN-Habitat Programme and Project Cycle Management Manual (PPM) was issued in June 2003 and was no longer up-to-date. The PPM was not revised to align with the policy that was

issued in November 2012. Staff interviewed with different roles in the project cycle confirmed that they did not follow the PPM as it was outdated. For example, the following elements require amendment:

- i) The 2003 manual refers to a two per cent levy in project budgets set aside for advocacy and evaluation, a system which UN-Habitat no longer uses;
- ii) The approval thresholds have changed from the \$100,000 in the 2003 project manual to \$300,000 as indicated in the 2012 project based management policy;
- iii) Changes have taken place since the 2003 manual was drafted including the following:
 - Global priorities have been recalibrated under the umbrella of the 17 Sustainable Development Goals (SDGs) adopted by member states in September 2015. An updated programme and project manual needs to take into account UN-Habitat's shift in focus from housing and slum upgrading to making cities and human settlements safe, resilient, inclusive and sustainable as per Goal 11 of the SDGs and from poverty oriented less developed countries to universal SDGs which incorporate middle income countries. The 2003 manual provides examples and references related to the focus on slums.
 - Since 2003 the modalities of doing business have changed and new modalities which include cost sharing activities and interventions should be reflected in the PPM.

46. There was no evidence of plans to update the PPM. This was attributed to the incomplete reform process which started in 2011 which was expected to culminate in an approved Secretary-General's bulletin and UN-Habitat was expecting a new mandate at HABITAT III scheduled to take place in October 2016 in Quito, Ecuador. As a result, there was lack of clarity and understanding of the procedures relating to the project management process under the current working environment, even though this was mitigated to some extent by the guidance in the project-based management policy issued in November 2012 and several memos from the Programme Division.

(10) UN-Habitat should update the Programme and Project Cycle Management Manual to reflect the changes in the operational policies and procedures.

UN-Habitat accepted recommendation 10 and stated that the 2003 PPM will be updated to reflect changes in the operational policies and procedures. Recommendation 10 remains open pending receipt of the updated PPM.

Need to finalize and consolidate policies and procedures for implementing partners

47. UN-Habitat Partnership Strategy dated May 2011, provides a framework within which UN-Habitat should fulfill its mandate by working with implementing partners. A clear and up-to-date policy on implementing partners was important to effectively and efficiently manage partnerships. At the time of audit, UN-Habitat had partners (Habitat Agenda partners) that were clustered according to their respective legal instruments as follows: (a) Memorandum of Understanding – used for partners such as governments, local authorities, intergovernmental organization, financial institutions and other United Nations entities; (b) Agreement of Cooperation – signed with partners who are implementing a particular project or activity and emphasizes the cooperation with partners rather than just provision of funds by UN-Habitat, and must be above \$15,000; (c) Small-Scale Agreement – a simplified version of Agreement of Cooperation signed with operational partners and involves provision of funds by UN-Habitat of \$15,000 or less; and (d) Letter of Intent – signed with Habitat Agenda partners entering into institutional relationships with UN-Habitat without any legal or financial commitments.

48. In addition to the 2011 Partnership Strategy, OIOS noted that there were three other policies/strategies on implementing partners as stated below:

- i) On 1 July 2016, UN-Habitat drafted a UN-Habitat Risk Management Policy for Implementing Partners which has not yet been adopted and was to be supplemented by standard operating procedures for managing Implementing Partners;
- ii) On 6 February 2014, UN-Habitat had drafted a UN-Habitat strategy for strengthening private Sector partnership which similarly has not yet been approved for use; and
- iii) In 2013, UN-Habitat prepared a partnership and communication strategy 2014-2017 on Global Land Tool Network which was approved specifically for a network of partners addressing land tool gaps.

49. The 2011 UN-Habitat Partnership Strategy did not provide for engaging and managing the performance of the various partners in the private sector. However, the draft “UN-Habitat Risk Management Policy for Implementing Partners” took into consideration the deficiencies noted in the 2011 strategy on details and steps to follow in engaging implementing partners. Management explained that the organization was still using the 2011 UN-Habitat Partnership Strategy and 2008 guidelines for the selection of operating partners while awaiting finalization and adoption of the new draft policies on implementing partners.

50. Lack of updated and consolidated implementing partner policies and procedures could result in lack of clarity during partner selections and partner performance management. As a result, there was a risk that UN-Habitat may select partners who may not perform to expectations.

(11) UN-Habitat should update, consolidate and implement the new partnership policy and procedures for effective management of partners.

UN-Habitat accepted recommendation 11 and stated that it had a current partnership strategy and will review it with the new standard operating procedures governing implementing partners. Recommendation 11 remains open pending receipt of updated and consolidated partnership policies and procedures.

V. ACKNOWLEDGEMENT

51. 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) Eleanor T. Burns
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Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Human Settlements Programme project management process

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UN-Habitat should ensure that all project documents: (i) include risk analysis and mitigation measures; and (ii) are reviewed by the Project Approval Group prior to signing of agreements with donors in accordance with established policies and procedures.	Important	O	Receipt of evidence that project documents include risk analysis and mitigation measures and are reviewed by the PAG prior to signing of agreements with donors.	31 March 2017
2	UN-Habitat should strengthen the Programme Accountability Framework by providing more details on the roles, responsibilities and accountabilities of staff in the project management cycle.	Important	O	Receipt of the updated PAF.	30 June 2017
3	UN-Habitat should consolidate, update and communicate the applicable project approval procedures and establish a mechanism to ensure that they are complied with.	Important	O	Receipt of: (i) updated and consolidated project approval procedures; and (ii) evidence of the steps taken to ensure compliance.	28 February 2017
4	UN-Habitat should strengthen controls by requiring evidence of both substantive and financial approvals prior to creation of donor grants and budget releases in Umoja.	Important	O	Confirmation that both substantive and financial approvals are submitted prior to creation of donor grant and budget releases in Umoja.	Not provided
5	UN-Habitat should review the Project Accrual and Accountability System to identify and resolve the bottlenecks and enhance its efficiency and effectiveness as a project management tool.	Important	O	Receipt of evidence of enhancements made to PAAS.	31 July 2017
6	UN-Habitat should establish a mechanism to ensure that project performance is monitored so that	Important	O	Receipt of evidence that a mechanism has been established to ensure that project performance is	31 March 2017

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.

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 project management process

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	projects at risk are systematically identified and remedial action is taken in a timely manner.			monitored and remedial action taken in a timely manner.	
7	UN-Habitat should take steps to ensure prompt financial closure of all projects in accordance with established procedures.	Important	O	Receipt of evidence that mechanisms are in place to ensure prompt financial closure of projects.	31 December 2016
8	UN-Habitat should ensure that necessary resources are provided for in project budgets to increase the number of impact assessments/evaluations to better assess and demonstrate the impact of its projects.	Important	O	Receipt of evidence that projects have set aside necessary resources in their budgets for impact assessments/evaluations.	31 July 2017
9	UN-Habitat should develop a strategy and long-term solution to reduce its reliance on consultants who were performing the functions of supervisors and regular staff.	Important	O	Receipt of evidence that a long-term solution has been developed to ensure compliance with ST/AI/2013/4.	30 June 2017
10	UN-Habitat should update the Programme and Project Cycle Management Manual to reflect the changes in the operational policies and procedures.	Important	O	Receipt of the updated PPM.	31 December 2017
11	UN-Habitat should update, consolidate and implement the new partnership policy and procedures for effective management of partners.	Important	O	Receipt of updated and consolidated partnership policies and procedures.	31 March 2017

APPENDIX I

Management Response

Management Response

Audit of the United Nations Human Settlements Programme project management process

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UN-Habitat should ensure that all project documents: (i) include risk analysis and mitigation measures; and (ii) are reviewed by the Project Approval Group prior to signing of agreements with donors in accordance with established policies and procedures.	Important	Yes	Part (a) Methods and Oversight Officer, Management and Operations Division Part (b) Program Advisory Group (PAG) Secretary, Programme Division	Part (a) 31 March 2017 Part (b) 30 November 2016	Part (i) UN-Habitat is continuing to roll out its Enterprise Risk Management (ERM). Project risks will be systematically analysed, mitigated and monitored. Part (ii) UN-Habitat will strengthen its management mechanisms, including the PAG, to ensure project documents are properly reviewed prior to signing of agreements with donors in accordance with established policies and procedures.
2	UN-Habitat should strengthen the Programme Accountability Framework by providing more details on the roles, responsibilities and accountabilities of staff in the project management cycle.	Important	Yes	Director, Management and Operations Division	30 June 2017	UN-Habitat will update its Programme Accountability Framework by providing more details on the roles, responsibilities and accountabilities of staff in the project management cycle.
3	UN-Habitat should consolidate, update and communicate the applicable project approval procedures and establish a mechanism to ensure that they are complied with.	Important	Yes	Program Advisory Group (PAG) Secretary, Programme Division	28 February 2017	All procedures related to project approval will be consolidated and compliance will be enforced.
4	UN-Habitat should strengthen controls by requiring evidence of both	Important	Yes	Financial Management	Implemented	UN-Habitat has sent instructions to concerned staff that evidence of both

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.

Management Response

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	substantive and financial approvals prior to creation of donor grants and budget releases in Umoja.			Officer, Management and Operations Division		substantive and financial approvals should be submitted prior to creation of donor grants and budget releases in Umoja.
5	UN-Habitat should review the Project Accrual and Accountability System to identify and resolve the bottlenecks and enhance its efficiency and effectiveness as a project management tool.	Important	Yes	Head of ICT Unit, Management and Operations Division	31 July 2017	PAAS system has been reviewed and task group has been formed to overview the rectification and enhancement process. Road map has been put in place identifying key milestones with their delivery dates.
6	UN-Habitat should establish a mechanism to ensure that project performance is monitored so that projects at risk are systematically identified and remedial action is taken in a timely manner.	Important	Yes	Methods and Oversight Officer, Management and Operations Division	31 March 2017	The recommended mechanism will be devised as part of the ongoing implementation of the ERM in UN-Habitat.
7	UN-Habitat should take steps to ensure prompt financial closure of all projects in accordance with established procedures.	Important	Yes	Financial Management Officer, Management and Operations Division	31 December 2016	UN-Habitat will establish mechanisms to ensure prompt financial closure of all projects in accordance with established procedures.
8	UN-Habitat should ensure that necessary resources are provided for in project budgets to increase the number of impact assessments/evaluations to better assess and demonstrate the impact of its projects.	Important	Yes	Chief, Evaluation Unit Office of the Executive Director (OED)	31 July 2017	UN-Habitat will provide guidance in project design. Final decisions on impact assessments will rest with donors and clients.
9	UN-Habitat should develop a strategy and long-term solution to reduce its	Important	Yes	Director Management	30 June 2017	UN-Habitat accepts the recommendation. UN-Habitat does not have a practice of

Management Response

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	reliance on consultants who were performing the functions of supervisors and regular staff.			and Operations Division		placing consultants into supervisory and/or representational work. However UN-Habitat will review persons on consultancy contracts and if they do indeed occupy roles inconsistent with the directions of the ST/SGB, they will be removed if found.
10	UN-Habitat should update the Programme and Project Cycle Management Manual to reflect the changes in the operational policies and procedures.	Important	Yes	Program Advisory Group (PAG) Secretary, Programme Division	31 December 2017	The 2003 Project management Manual will be updated to reflect changes in the operational policies and procedures.
11	UN-Habitat should update, consolidate and implement the new partnership policy and procedures for effective and efficient management of partners.	Important	Yes	Methods and Oversight Officer, Management and Operations Division	31 March 2017	UN-Habitat accepts the recommendation. UN-Habitat has a current partnership strategy and will review it with the new standard operations procedures governing implementing partners.