



INTERNAL AUDIT DIVISION

OFFICE OF INTERNAL OVERSIGHT SERVICES

AUDIT REPORT

Audit of Administration of UN-HABITAT
Afghanistan projects

3 August 2007

Assignment No. AA2007/250/04

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE
OIOS · BSCI

TO: Mrs. Anna Tibaijuka, Executive Director
A: UN-HABITAT

DATE: 3 August 2007

REFERENCE: AUD- (07-)

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AA2007/250/04 - Audit of Administration of UN-HABITAT**
OBJET: **Afghanistan projects**

1. I am pleased to present the report on the above-mentioned audit, which was conducted from February to April 2007.
2. In order for us to close the recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1, 4, 5, 8, and 9), in its annual report to the General Assembly and semi-annual report to the Secretary-General.
4. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

cc: Mr. Toshi Noda, Director, Regional Office for Asia and the Pacific, UN-HABITAT
Mr. Antoine King, Director, Programme Support Division, UN-HABITAT
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Christopher Bagot, Acting Chief, Nairobi Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of Administration of UN-HABITAT Afghanistan projects

OIOS conducted an audit of Administration of UN-HABITAT Afghanistan projects from February to April 2007. The main objectives of the audit were to assess the adequacy of the internal control systems including organizational structure of UN-HABITAT Afghanistan for administering the Afghanistan projects. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The success of the Afghanistan operations had resulted in a growth of operations from simple project implementation to a country programme with a number of long term coherent parallel projects. However, OIOS identified a need for considerable improvements in its administrative arrangements to support the change. The major findings, by focus area, are summarized below:

Strategic Management

OIOS determined that the current administrative framework was not able to support properly the change to a country programme and UN-HABITAT needed to establish a new country level operational framework which would include a strategy and policy document covering its long term goals in Afghanistan, a model organizational structure and funding arrangement, minimum staffing levels, arrangement for establishment, monitoring and oversight of the delegation of authority, and field level policies and procedures.

Financial Management

OIOS was concerned with the arrangement for the use of project resources valued at approximately \$7 million through a separate Umbrella project, which was used for the performance of core technical, managerial and administrative functions. The project had not been agreed with donors and OIOS found inaccurate presentation of final financial reports of individual project expenditures. OIOS recommended that UN-HABITAT should, with immediate effect, suspend the use of the existing umbrella project and UNON should be invited to review and reconcile draw downs and expenditures for projects that have funded the Umbrella account. On completion of this exercise, UN-HABITAT needs to enter into discussion with affected donors on the use of funds. Furthermore, UN-HABITAT should draw up guidelines for accounting and treatment of common resources, as part of its ongoing work in developing an operational manual for field activities.

Human Resources Management (HRM)

There was a need to strengthen HRM arrangements by clarifying the responsibilities and authority of UN-HABITAT Afghanistan, UN-HABITAT Regional Office of Asia and Pacific and UNON.

Information Technology (IT)

Efficiency gains were possible through enhanced use of IT, especially networking of local computers and enhanced accessibility to Headquarters systems. An IT strategy is needed to map out the minimum IT infrastructure needed to support a country level operation.

Security and Safety

There was a need to conduct a comprehensive review of compliance with Minimum Operating Security Standards, which should serve as a basis for identifying budgetary requirement and a reference point for monitoring compliance.

Procurement

UN-HABITAT needed to determine the nature of community contracts and clarify the corresponding policies for its use.

Asset Management

UN-HABITAT Afghanistan needed to ensure the completeness of inventory records that includes regular physical inventory to identify any missing or obsolete items for subsequent actions.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1 - 5
II. AUDIT OBJECTIVES	6
III. AUDIT SCOPE AND METHODOLOGY	7 - 8
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Strategic Management	9 - 26
B. Financial Management	27 - 39
C. Human Resources Management	40 - 47
D. Information Technology (IT)	48 - 50
E. Security and safety	51 - 57
F. Procurement	58 - 67
G. Assets Management	68 - 70
V. ACKNOWLEDGEMENT	71
ANNEX 1 – Actions needed to close audit recommendations	

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the administration of UN-HABITAT Afghanistan projects from February to April 2007.

2. UN-HABITAT has been operating in Afghanistan since 1992. In the past UN-HABITAT worked directly with communities in meeting their essential basic needs – shelter, services, employment, and social inclusion. More recently, UN-HABITAT has been assisting the Government of Afghanistan through an expanding number of self-standing projects, both urban and rural, but with a common theme of community empowerment. The current portfolio consists of 14 projects with a total budget of \$46 million with expenditures valued at approximately \$16 million in 2006.

3. UN-HABITAT maintains a central office in Kabul and nine provincial offices, each of which is headed by a National Provincial Manager. Each provincial office manages several district offices (there are around 35 offices in total). The administration is mainly carried out by Programme Support Unit (PSU) in Kabul central office under the leadership of a Programme Management Officer (PMO) at the P-3 level. PSU comprises the following sub units: Finance, HR, Logistics, IT and Programme. Each provincial and district office also maintains small administrative functions.

4. The staffing in Afghanistan includes eight international staff including Country Programme Manager, as head of UN-HABITAT Afghanistan, 17 National officers, 62 local staff holding UNDP Service Contracts and approximately 850 technical and administrative project staff holding consultancy contracts. UN-HABITAT Regional Office for Asia and the Pacific (ROAP, located in Fukuoka, Japan) provides backstopping to the Afghanistan projects.

5. Comments made by UN-HABITAT are shown in *italics*.

II. AUDIT OBJECTIVES

6. The major objectives of the audit were to inform the Executive Director, UN-HABITAT on the adequacy of:

(a) internal control systems for administering the Afghanistan projects to ensure effective, efficient and economic use of resources and compliance with project documents and UN Regulations and Rules; and

(b) the organizational structure of UN-HABITAT Afghanistan including the oversight and backstopping arrangement of ROAP for administration of projects.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on project administrative activities for the period January 2005 to February 2007. Project management matters (project formulation, project funding, project accounting and budget revisions, delivery of project outputs, monitoring and evaluation of project implementation and project reporting) were not part of this audit. Consequently, the review of project expenditures was limited to the extent as deemed necessary to assess the effectiveness of internal control system for obligation, disbursement and recording, which would include appropriate segregation of duties, authorization, documentation and timely recording.

8. The audit activities included a review and assessment of risks and internal control systems, interviews with staff and management, analysis of applicable data and a review of the available documents and other relevant records and reports.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Strategic Management

Objective of UN-HABITAT Afghanistan operations

9. Whilst the activities being undertaken in Afghanistan are in accordance with its overall mandate, UN-HABITAT lacked a strategy or approved policy statement explaining the long term goal and objectives of its Afghanistan operations. This need arises at this time as UN-HABITAT operations have evolved from implementing projects funded by ear marked contributions to a country level programme with the following vision statement that was developed locally but had not been approved by the Executive Director at the time of the audit: "UN-HABITAT seeks to promote an Afghanistan where community welfare is advanced through an inclusive, functional, and responsive governance system in which stakeholders are actively involved in a learning process that makes them aware of their roles, responsibilities and relations and improves their living conditions through partnerships for sustainable development and the promotion of a peaceful environment for all Afghans". The long term goal and objectives are also needed to provide a benchmark against which UN-HABITAT management and others can evaluate the effectiveness of operations.

Recommendation 1

(1) To provide strategic direction to UN-HABITAT operations in Afghanistan, UN-HABITAT should prepare a strategy and policy document covering its long term goals in Afghanistan, which should be approved by the Director of the Regional Office and the Regional and Technical Cooperation Division, which should serve as a basis for

measuring effectiveness of operations and a starting point for establishing appropriate managerial and administrative arrangements.

10. *UN-HABITAT accepted recommendation 1 and stated that it would be implemented by 31 December 2007. The Strategic Plan is in the process of being prepared through consultations with the Provincial Offices, respective Ministries and Municipalities. Three large projects are in the pipeline and these should be finalized by end of August. These three projects will have strong bearing on the future strategic direction.* Recommendation 1 remains open pending receipt of a copy of the strategy and policy document covering UN-HABITAT's long term goals in Afghanistan, approved by Director of the Regional Office and the Regional and Technical Cooperation Division (RTCD).

Planning and monitoring

11. Once a strategic direction has been established, this needs to be supported by country level planning and monitoring procedures, which would include:

- (a) A strategy for operation, programme development and management;
- (b) An annual work plan for country programme that incorporates the work plans of individual projects in order to adequately identify the objectives and schedule for each strategic goals;
- (c) Procedures for the monitoring of implementation of strategic goals including regular management reporting arrangement to ROAP; and
- (d) A procedure of regular staff meetings to ensure appropriate communication between management and staff on the strategic direction and progress.

12. OIOS was informed that there used to be semi-annual strategic planning process for UN-HABITAT Afghanistan, which was not taking place at the time of the audit.

Recommendation 2

(2) To ensure achievement of its goals and objectives for UN-HABITAT Afghanistan, UN-HABITAT should develop a strategic planning and monitoring framework for the Afghanistan operations.

13. *UN-HABITAT accepted recommendation 2 and stated that it would be implemented by 31 December 2007. ROAP and RTCD would establish a monitoring system for monitoring the strategic plan of UN-HABITAT Afghanistan.* Recommendation 2 remains open pending receipt of a copy of the strategic planning and monitoring framework for the Afghanistan operations.

Host Country Agreement (HCA)

14. At the time of the audit UN-HABITAT operations were not governed by any specific HCA (except the usual HCA provided by UNDP and UNAMA) and UN-HABITAT was not aware whether or not it required one. ROAP expressed the view that one was needed to ensure that its office was properly established in a specific country under the UN Convention on privileges and immunities. UN-HABITAT Afghanistan expressed the opinion that the Agreement between the Government of Afghanistan and the United Nations Assistance Mission in Afghanistan should be also applicable to UN-HABITAT Afghanistan, but this had not been confirmed. OIOS discussed the issue with UN-HABITAT Legal officer who agreed to consult with the Office of Legal Affairs on this matter.

Recommendation 3

(3) To ensure that UN-HABITAT has a sound legal basis for its operations in Afghanistan, UN-HABITAT should consult with the Office of Legal Affairs whether it is covered by the agreement signed between the Government of Afghanistan and the United Nations Assistance Mission in Afghanistan (UNAMA) or the usual UNDP host country agreement or whether it needs a separate host country agreement in Afghanistan, and, if a host country agreement is required take appropriate action.

15. *UN-HABITAT accepted recommendation 3 and stated that it would be implemented by 31 December 2007. Currently the Afghanistan Programme runs as a de facto country programme and it enjoys the same status as any other bigger UN agency. It has a Programme Management Officer and an Imprest account headed by a Country Programme Manager. UN-HABITAT Afghanistan however does not have core funding for its presence and core functions. Core functions were financed by the Umbrella project. UN-HABITAT'S Legal Section should advise on the need to have a separate legal agreement with the Government additional to the HCA's signed by UNAMA and UNDP. Recommendation 3 remains open pending notification of whether it is covered by the agreement signed between the Government of Afghanistan and the United Nations Assistance Mission in Afghanistan or the usual UNDP host country agreement or whether it needs a separate host country agreement in Afghanistan.*

Organizational structure

16. At the time of the audit, UN-HABITAT did not yet have in place a model organizational structure for conducting operations at a country level. OIOS appreciated that this need was recognized by the staff at the field level and attempts had been made to create a common structure, and the newly recruited country programme manager's responsibilities included among others "instituting a common administration and financial framework".

17. The absence of model organizational structure resulted in a discrepancy between the structure and funding arrangement. For example, the staff involved in common services are funded from one specific project as if they are project staff dedicated to a certain project. For example, the security officer and IT officer are funded by one project (XB-AFG-06-X03) and the office management associate and procurement assistant are funded by another project (XB-AFG-06-X01). The above arrangement meant that the financial reporting of project expenditures might not accurately reflect the actual expenditures for individual projects compared to the actual resources used without a cost tracking and allocation system.

Recommendation 4

(4) To ensure efficient country level operation in Afghanistan and an appropriate level of resources for these operations, UN-HABITAT should create a template organizational structure and funding arrangement for country level operations, which should be implemented in Afghanistan. This structure should focus on resources and funding for common managerial and administrative services.

18. *UN-HABITAT accepted recommendation 4 and stated that it would be implemented by 31 December 2007. Organizational structure will be finalized with the strategic plan. Funding arrangement for common managerial and administrative services will require a "Common Services Account" which can be funded from all the projects. It is proposed that this new account be established after clearing of the current "umbrella" account.* Recommendation 4 remains open pending receipt of a copy of organizational structure and funding arrangement for Afghanistan country level operations.

Delegation of authority

19. The delegated authority granted to UN-HABITAT Afghanistan was unclear, which resulted from the absence of an appropriate mechanism in place for establishment, oversight and monitoring of authority granted. In places where OIOS did find evidence of monitoring requirements, such as procurement, they were not enforced. For example:

- (a) There was no clear delegation on personnel matters including recruitment of consultants. Consequently, it was not clear on what basis UN-HABITAT Afghanistan carries out recruitment of its staff through either UNDP contracts or enters into its own consultancy contract.
- (b) Responsibility for inventory management and Information Technology was not defined; and
- (c) UN-HABITAT Afghanistan established limited petty cash account (which is called as "operational advance") for several field offices considering the distance between Kabul main office

and availability of banking arrangement, for which, however, UN-HABITAT Afghanistan was not given any authority.

Recommendation 5

(5) To ensure accountability, UN-HABITAT should establish arrangement for establishment, monitoring and oversight of the delegation of authority and corresponding resources, which should be used as reference in determining appropriate level of delegation of authority for Afghanistan.

20. *UN-HABITAT accepted recommendation 5 and stated that it would be implemented by 31 December 2007. For Afghanistan operations the following delegated authority is required: To enter into contracts for the goods and services up to \$70,000; Issue national staff Service Contracts; Approval and award of Community Contract; and Settlement of local travel claims. Programme Support Division (PSD) will provide the guidelines on the operations of delegated authority.* Recommendation 5 remains open pending receipt of a copy of procedures detailing the arrangements for establishment, monitoring and oversight of delegation of authority and corresponding resources; and a copy of the delegation of authority for Afghanistan operations.

Policies and procedures

21. In 2001 OIOS recommended to UN-HABITAT that it should develop a Procedures manual for financial and budgetary control of projects which outlines the respective responsibilities of Habitat and UNON. This was reinforced in 2002 when UN-HABITAT was requested to develop an up-to-date field manual on administrative and substantive functions including project management, planning, asset management, financial and budgetary management and procurement. OIOS was pleased note that work had begun on the field manual in 2007.

22. UN-HABITAT has kept OIOS fully informed of progress and the reasons for the slow implementation, but did not put in place a temporary mechanism to advise staff what to do whilst the field manual was under development. Consequently, OIOS found in Afghanistan locally developed policies and guidelines, which were not always linked to United Nations rules or the delegated authority, such as those for operational advances, leave monitoring, and local travel arrangements.

Recommendation 6

(6) To ensure compliance with United Nations Regulation and Rules, and delegation of authority, UN-HABITAT Afghanistan should document and compile the local policies and procedures in place in Afghanistan and ensure that they are in line with UN Regulations and Rules and within the delegated authority. UN-HABITAT should also consider to what extent these compiled practices could

be included in the field manual and if UN-HABITAT Afghanistan could assist in testing and development of the manual.

23. *UN-HABITAT accepted recommendation 6 and stated that it would be implemented by 31 December 2007. The current policies and procedures adopted in Afghanistan will be compiled. It is proposed that some of the acceptable policies and procedures be incorporated in UN-HABITAT's field operational manual. Recommendation 6 remains open pending receipt of a copy of the compiled local policies and procedures in place in Afghanistan.*

Provision of services

24. The administration of UN-HABITAT Afghanistan projects requires supports and services from ROAP, UNON and UNDP in field level as summarized below:

- (a) ROAP provides technical and administrative / financial backstopping services for the Afghanistan projects;
- (b) UNON provides monthly imprest replenishment service based on documents checked and authorized by ROAP. UNON also handles project accounting through its Project Accounting Unit; and
- (c) UNDP Afghanistan provides HR support for certain staff members holding UNDP contracts such as Service contract or ALD (Appointment with Limited Duration).

25. The respective roles and responsibilities of ROAP and UNON for service delivery are not clearly documented, and therefore OIOS lacked criteria to assess both the adequacy of the arrangement in place and the quality of service received. For example, there was no agreement on how the imprest account should be reported in terms of format and timing. OIOS was told that the details of disbursement from imprest account used to be sent in PDF format until recently and UNON had difficulty in reviewing and processing them in IMIS. Furthermore, there was no documentation explaining the detailed nature of administrative backstopping to be provided by ROAP.

Recommendation 7

(7) To enhance the accountability arrangement for Afghanistan operation, UN-HABITAT should clarify the respective roles and responsibilities of ROAP and UNON for service delivery to its Afghanistan operation.

26. *UN-HABITAT accepted recommendation 7 and stated that it would be implemented by 31 December 2007. Recommendation 7 remains open pending receipt of a copy of documentation clarifying the respective roles and responsibilities of ROAP and UNON for service delivery to its Afghanistan operation.*

B. Financial Management

Use of project resources through an Umbrella project

27. In July 2002, ROAP, in consultation with UN-HABITAT Headquarters established an Umbrella project with the title of Technical Support Services to Urban Secretariat, FS/AFG/02/S11. The project title was later changed to Technical Support Services to UN-HABITAT Afghanistan. The project was established with about \$280,000 of resources of different projects in Afghanistan and \$100,000 from JPN/97/S02 (Support for Fukuoka Office). UN-HABITAT noted that there were resources from a number of parallel Afghanistan projects, to which certain expenditures were not actually charged. The idea was to recover from the projects the common technical, managerial and administrative services rendered for implementation and book them as income to the Umbrella project for subsequent utilization to support general crosscutting UN-HABITAT Afghanistan activities.

28. ROAP provided OIOS with a list detailing the projects and budget lines from which approximately \$7 million had been transferred to the Umbrella project as of February 2007. ROAP explained that the Umbrella project was meant to be used as a tool to pool the fund for "cost shared international staff and consultants" and other operational cost of Afghanistan projects for ease of accounting and administering the resources required to implement the Afghanistan programme. However, the accounting and controls systems to achieve this were not adequate to track in a transparent manner the sources of funds and expenditures. Consequently, UN-HABITAT was unable to demonstrate that the Umbrella project was being used as intended and there was inaccurate financial reporting of individual projects. Donors were informed that funds were fully utilized, when there were balances left on individual projects, which were recovered and transferred to the Umbrella project and subsequently used on other UN-HABITAT Afghanistan projects for crosscutting common services. Whilst OIOS appreciates the rationale, and the need for such a financial arrangement, it is imperative that donors are informed of the system of recovery of expenditure incurred for common technical managerial and administrative services and donors are provided with financial statements on basis of accurate information, which did not happen in this case.

29. Due to the lack of pertinent information, OIOS was unable to establish how much of the \$7 million had been utilized for common services and would require further donor agreement for its use. Whilst ROAP explained that it could demonstrate that the money was used by and large for UN-HABITAT projects in Afghanistan, OIOS determined that a more transparent reporting modality should be adopted in order to improve the internal control arrangements.

30. OIOS also noted a balance of \$124,000, which was generated in 2005 from unliquidated obligations from various projects that had closed in 2003 and kept in cash in the safe of UNDP in Kabul until the time of the audit. ROAP management informed OIOS that it intended to approach concerned donors to discuss the utilization of these funds.

Recommendation 8 to 10

(8) To ensure appropriate use of project resources, UN-HABITAT should suspend the use of the existing Umbrella project for Afghanistan. UN-HABITAT and UNON should review and reconcile draw downs and expenditure of the Umbrella account and, where necessary, prepare corrected financial statements for affected Afghanistan projects. On completion of this exercise, if it is found that the financial record to the donors have been inadequately reported, UN-HABITAT should enter into a discussion with affected donors on use of the funds.

(9) To ensure proper accounting for and treatment of common resources used in more than one project, UN-HABITAT should draw up guidelines for accounting and treatment of common resources, as part of its ongoing work in developing an operational manual for field activities.

(10) To ensure appropriate use of project resources, UN-HABITAT should clarify to the relevant donors and either return \$124,000 to affected donors or obtain agreement on its use.

31. *UN-HABITAT accepted recommendation 8 and stated that it would be implemented by 31 December 2007. The existing Umbrella Project has been suspended, and a new one, which will prorate costs back to the relevant projects and/or get appropriate approval to use the funds for common costs will be opened. Guidelines on how to correctly charge donors are in preparation. ROAP has carried out an in depth analysis of the sourcing and expenditure of the Umbrella account. A report will be prepared to explain Afghanistan expenditures. Recommendation 8 remains open pending receipt of a copy of the report outlining the results of the review and notification of the outcome of discussions with donors, where appropriate.*

32. *UN-HABITAT accepted recommendation 9 and stated that it would be implemented by 31 December 2007. There is an absolute need to establish a 'common services account' to be funded by all projects. This fact will be explicitly stated in the future project documents. Guidelines for the operations of this account will be provided by PSD. Recommendation 9 remains open pending receipt of a copy of the guidelines for accounting and treatment of common resources, as part of the ongoing work in developing an operational manual for field activities.*

33. *UN-HABITAT accepted recommendation 10 and stated that it would be implemented by 31 December 2007. The Afghanistan office will discuss with two donors who had large balances, a proposal to utilize the money for common services function of improving security of the district offices to be MOSS*

complaint. Recommendation 10 remains open pending notification of the outcome of discussions with donors on the use of the \$124,000.

Imprest account

34. An imprest account has been established since October 2005 in Kabul main office with approval by UNON. UN-HABITAT Afghanistan wishes to increase the ceiling of the imprest account from \$1.11 to \$1.8 million to match the expected increase in the level of monthly disbursements. OIOS noted that there appeared to be adequate controls in place to support the proposed increase. However, UN-HABITAT Headquarters expressed concern at an imprest level approaching \$2 million, and suggested that alternative means of payment should be explored. OIOS noted that UN-HABITAT had no procedures and guidance to consider when alternative methods such as direct payment by UNON might be better.

Recommendation 11

(11) To ensure that it is clear when and what circumstances imprest accounts should be established and used in field operation in conjunction with other alternatives such as direct payment from Headquarters, UN-HABITAT should develop a guideline for establishing, monitoring and reviewing imprest accounts.

35. *UN-HABITAT accepted recommendation 11 and stated that it would be implemented by 31 December 2007. PSD and UNON will prepare the guidelines for establishment of Imprest accounts.* Recommendation 11 remains open pending receipt of a copy of guideline for establishing, monitoring and reviewing imprest accounts.

Obligation of project expenditures

36. The practice for obligation of expenditures for UN-HABITAT Afghanistan projects was that upon request from UN-HABITAT Afghanistan ROAP certifies and UNON approves the obligation through IMIS for the expenditures in Afghanistan using OBMO in bulk for each budget line for the estimated expenditure for certain period of time (usually quarterly). OIOS was concerned with current practice of obligation because:

- (a) Rule 105.9 of the UN Financial Regulations and Rules prescribes that “An obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by the United Nations.” An OBMO is an accounting tool to be used only when it could not be obligated through other forms of obligating documents. It appeared that there was misunderstanding in ROAP that the OBMO should be used when authorization to incur expenditures or make payment to field offices.

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- (b) The official certification has been carried out by PMO in ROAP without actual supporting documentations (though, starting from 2007, UN-HABITAT Afghanistan provides ROAP with certain supporting documentation such as staff list or programme plan to support the estimation). ROAP explained that it understood that actual certification had been carried out already in the field by PMO in Afghanistan. Therefore, OIOS considered that the current practice by ROAP is just recording of obligations into IMIS system on behalf of UN-HABITAT Afghanistan, not certification as intended. The PMO in ROAP also expressed concern about the duplication of efforts and accountability.

37. OIOS appreciated that the IMIS roll out and related training to Afghanistan is planned for June 2007, which would be helpful in improving the situation described above.

Recommendation 12

(12) To ensure better compliance with Rule 105.9 of the UN Financial Regulations and Rules on obligations, UN-HABITAT should develop a clear guideline on the obligation of project expenditures and clarify who should be the official certifying officer for Afghanistan projects.

38. *UN-HABITAT accepted recommendation 12 and stated that it would be implemented by 31 December 2007. PSD and UNON to issue guidelines following the IMIS training in June 2007. Recommendation 12 remains open pending receipt of a copy of guideline on the obligation of project expenditures and notification of who is the official certifying officer for Afghanistan projects.*

Use of money supplier

39. UN-HABITAT Afghanistan hires the service of a money supplier to transfer fund to field offices when replenishing operational advances. The controls over the use of a money supplier appeared adequate including the followings:

- (a) Staff member who can give payment instructions to money supplier is formally authorized and formally communicated to money supplier;
- (b) Instructions to money supplier are made by the staff member only upon receipt of authorized disbursement vouchers;
- (c) Money supplier is paid only upon formal confirmation of successful delivery; and
- (d) Payments can be made by the money supplier only to staff members (provincial finance officers) who are formally authorized and formally communicated to money dealer.

C. Human Resources Management

Use of consultants

40. UN-HABITAT normally uses UNDP in recruiting local staff to ensure compliance with the local conditions and also retain consistency in administration. However, UN-HABITAT Afghanistan explained they did not use UNDP for UN Consultant and Individual Contractors (CIC) because they believed that UNDP might be unable to handle the number they wished to hire, which exceeded 500. UN-HABITAT was yet to demonstrate that UNDP could not handle the cases, but have agreed to prepare a case for consideration by UN-HABITAT justifying their action. Work was underway at the time of issuing this draft report and therefore no further action is proposed.

41. Though there was no delegated authority for consultants, UN-HABITAT Afghanistan proceeded to let CIC contracts for around 800 project staff, which were in violation of ST/AI/1999/7 in such respects as duration of contracts. In addition, they provided entitlements such as leave, overtime and life insurance. These contracts were all let to local staff to carry out project related activities. OIOS was of the opinion that consultancy contracts were not the appropriate contracts for the type of services performed. This was agreed by UN-HABITAT, and at the time of the audit, discussions has begun between UN-HABITAT and UNON to regularize the situation, which would include suggestion for alternative contracting arrangement for local project staff for consideration by OHRM.

Recommendation 13

(13) To ensure efficient operations in Afghanistan, UN-HABITAT and UNON should work together within a clear timeframe, to agree on the most appropriate arrangement for recruitment, administration and performance monitoring and related delegation of authority for the use of consultants in Afghanistan and seek clearance from OHRM as needed.

42. *UN-HABITAT accepted recommendation 13 and stated that it would be implemented by 31 December 2007. ROAP has prepared a paper for the justification for UN-HABITAT field offices to issue Service Contracts. HRMS is exploring the possibility of authorizing UN-HABITAT field offices to issue Service Contracts.* Recommendation 13 remains open pending notification of the arrangements approved by OHRM for recruitment, administration and performance monitoring and related delegation of authority for the use of consultants in Afghanistan.

Leave and attendance

43. The monitoring of daily attendance and leave was being carried out in Field office level and Kabul main office level as well. OIOS was concerned as there was duplication of efforts in creating and maintaining the attendance and leave records in district office, provincial office and Kabul main office, respectively.

Recommendation 14

(14) To increase efficiency, UN-HABITAT Afghanistan should explore the possibility of further decentralising the leave monitoring.

44. *UN-HABITAT accepted recommendation 14 and stated that it would be implemented by 31 December 2007. National staff leave monitoring will be decentralized to the Provincial Offices.* Recommendation 14 remains open pending receipt of documentation explaining the revised arrangements for decentralising the leave monitoring.

Administration of local travel

45. In 2006, there were more than 500 travel authorizations, and for 2007, as of the audit date, there were around 200 travel authorizations. OIOS tested a sample of approximately 20 travel claims processed in January and February 2007 and noted that the travel had been duly authorized and claims were attached with mission reports. However, OIOS noted the followings:

- (a) The practice in Afghanistan is that the DSA would be paid through payroll when the F-10 is submitted together with mission report, while the advance is allowed only on exceptional cases upon request. The ST/AI/2006/4 on official travel prescribes that travel advances maybe made, and as such, OIOS considered that current practice imposes undue financial burden on staff members. It was explained that there has not been any complaints from staff and that current practice is most practical in line with the insufficient HR and IT resources within PSU to issue related vouchers individually and record and monitor the advances for such large number of travels;
- (b) The submission of F-10 and mission report could be improved by adding columns in the existing travel log indicating date of submission. Furthermore, the mission report needed to be standardized and the procedures for clearance by supervisors needed to be established.

Recommendations 15 and 16

(15) To ensure that it does not impose undue financial burden on staff members, UN-HABITAT Afghanistan should establish criteria to decide when travel advances could be made.

(16) To ensure the timely submission of travel claim forms (F-10) and mission reports and to enhance the effectiveness of mission reports, UN-HABITAT Afghanistan should

develop a guideline explaining the template to use, clearance procedures and monitoring.

46. *UN-HABITAT accepted recommendation 15 and stated that it would be implemented by 31 December 2007. The number of staff traveling is high and controlling advances is difficult, but wherever possible and needed, advances will be provided. They are difficult to administer and there are no banks in the provinces. Travel advances will be an additional strain on the cash advances provided to the provincial offices. Recommendation 15 remains open pending receipt of documentation explaining the criteria to decide when travel advances could be made.*

47. *UN-HABITAT accepted recommendation 16 and stated that it would be implemented by 31 December 2007. Guidelines are being prepared. Recommendation 16 remains open pending receipt of a copy of the guideline explaining the template to use, clearance procedures and monitoring of travel claim forms.*

D. Information Technology (IT)

48. The current approach to IT in Afghanistan is based on stand-alone computers for implementation of individual projects without consideration of the infrastructure required to support delegation of authority to operate a country level operation. OIOS was particularly concerned that:

- (a) In the absence of adequate network environment and clear policies and procedures on data compilation and protection, most of the data remains in the individual computers with great exposure to the risk of alteration and loss. It also hinders effective information and knowledge management practice, resulting in inefficiency in overall operation.
- (b) UN-HABITAT Afghanistan was not sure it had genuine license for the software applications such as MS-Windows, MS-Office, Auto-CAD and its financial application (IABS), as most of these software was provided by the suppliers of computers without clarification on the license of the applications. While accurate information was not available on how many computers are running what kinds of and how many unlicensed programmes might exist, it was estimated that approximately \$16,000 per year would be required for genuine MS products alone for the 100 computers in use at the time of the audit.

49. OIOS appreciated that UN-HABITAT Afghanistan recognized the need to strengthen its IT environment and wanted to recruit an IT manager in September 2006. However, UN-HABITAT Afghanistan could not attract a qualified person and no alternative action plan had yet been produced to strengthen the IT environment. The Terms of Reference for the proposed post of IT managers reflected the fundamentals of IT environment that UN-HABITAT needed to establish or strengthen including the following:

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- (a) Analysis, design, implementation, operation and maintenance of UN-HABITAT Afghanistan IT strategy and LAN;
 - (b) Implementation of Network Information Systems application including network file services; and
 - (c) Ensure the overall security of network services.

Recommendation 17

(17) To enhance the effectiveness of its Information Technology (IT) environment, UN-HABITAT should renew its effort to recruit an IT manager for Afghanistan, and at the same time seek assistance from UNON in obtaining expert help in identifying IT needs and requirements, including the replacement of software applications.

50. *UN-HABITAT accepted recommendation 17 and stated that timing would be dependent on funding and ability to recruit appropriate person. ROAP fully endorses this recommendation and in fact the post was advertised in AFG several times and a suitable candidate could not be found. It is now proposed to hire an International Consultant to carry out this function and train a national staff member. Since the Umbrella Account has been suspended, funds cannot be found in any single project for this purpose.* Recommendation 17 remains open pending notification of the recruitment of an IT manager and documentation explaining the IT needs and requirements, including the replacement of software applications.

E. Security and Safety

Country level security monitoring

51. UN-HABITAT Afghanistan appeared familiar with the security situations in Afghanistan as it participated in the Afghanistan Security Management Team meetings and received security advisories and security-related information from United Nations Department of Safety and Security (UNDSS) and Security Information Operation Centre. Some of the information/security advisories were then disseminated to UN-HABITAT Afghanistan staff, as appropriate. OIOS also appreciated that UN-HABITAT Afghanistan had security officers in Kabul and each provincial office.

Basic security administration

52. UN-HABITAT Afghanistan agreed that the following areas in security administration could be further improved:

- (a) OIOS was informed that UN-HABITAT Afghanistan provides all staff with security and safety trainings in addition to the mandatory security briefing and on-line trainings. However, the completeness of the training could not be assured in the absence of

proper documentation or data compiling and monitoring who attended. For example, UN-HABITAT Afghanistan was not effectively monitoring the compliance with completion of Basic Security Training in the Field and Advance Security Training mandatory to all UN staff. As a result, it was estimated that only 50 per cent of staff (excluding CIC contract holders) complied, at the time of the audit.

(b) OIOS determined that certain basic security measures needed to be strengthened

- At the Kabul main office, vehicle check was being carried out inside the office compound with minimal protection of compound and staff against potential risks of aggression.
- OIOS observed that the staff and visitors in Kabul office did not normally wear their ID. OIOS was of the opinion that wearing ID is a basic security requirement and an effective security measures for controlling entry into the compound.
- The enforcement of the wearing of car safety belts needed to be strengthened.

Recommendations 18 and 19

(18) To help monitor full compliance with the training requirement, UN-HABITAT Afghanistan should establish a database to hold the security training requirements of each staff member.

(19) To enhance the security arrangement, UN-HABITAT Afghanistan should ensure implementation of basic security measures such as safer vehicle check, wearing of identity cards and driving safety.

53. *UN-HABITAT accepted recommendation 18 and stated that it would be implemented by 31 December 2007. The Security Officer is currently training the provincial staff. Staff trained in security will be included in the payroll database. Recommendation 18 remains open pending confirmation of the establishment of a database to hold the security training requirements of each staff member.*

54. *UN-HABITAT accepted recommendation 19 and stated that it would be implemented by 31 December 2007. Vehicle checking areas have been strengthened with additional sand bags. Wearing of ID Cards has been made compulsory, and wearing of seat belts has been enforced. Drivers are receiving a re-training on safe driving. Recommendation 19 remains open pending receipt of documentation describing the security measures put in place and how compliance will be monitored.*

Compliance with MOSS

55. The responsibility for security of offices and staff members primarily rests with the Head of Agency including the compliance with the Minimum Operating Security Standards (MOSS) and Minimum Operating Residential Security Standards (MORSS) that are in place in Afghanistan which was updated on 18 April 2006. OIOS was informed that UN-HABITAT could not always comply with MOSS / MORSS in their entirety due to budgetary constraints or operational requirements. For example, OIOS was told that certain staff were operating outside the MOSS compliance area due to the nature of the project activities requiring direct contact with the communities. Further, OIOS was told that in certain cases, compliance with MOSS could attract attention when driving in a vehicle clearly marked as United Nations.

56. There was inadequate documentation explaining the extent of compliance / non-compliance with the MOSS, which should have guided UN-HABITAT Afghanistan in identifying the implications, planning corrective measures or justification / alternatives. For example, there was a need to clarify with UNDSS whether the District offices are subject to MOSS or not. OIOS was later informed that Kabul main office and other four provincial offices were MOSS compliant while UN-HABITAT Afghanistan was in the process of assessing the MOSS compliance status for remaining five provincial offices.

Recommendation 20

(20) To ensure full compliance with security requirements such as MOSS and MORSS, UN-HABITAT Afghanistan should identify where the current gaps are and use this analysis as the basis for identifying budgetary requirement and for reference in monitoring compliance.

57. *UN-HABITAT accepted recommendation 20 and stated that it would be implemented by 31 December 2007. MOSS gaps in the provincial offices have been identified and are being fixed. An assessment of the 35 District offices will be undertaken by the Security Officer. Recommendation 20 remains open pending receipt of documentation describing the current security gaps, the steps to be taken to address these issues, and the arrangements for monitoring compliance.*

F. Procurement

LCC

58. OIOS appreciated that UN-HABITAT Afghanistan voluntarily established a Local Committee on Contracts (LCC), which was not explicitly required for the level of procurement authority delegated. The operation of this LCC could be improved with clear Terms of Reference with regard to its roles and responsibilities and standard operational procedures such as membership or quorums and review threshold. For example, in accordance with UN-HABITAT Afghanistan local procurement guidelines established in January 2006, the LCC

should review procurement actions between \$2,500 and \$25,000, which had not been complied with consistently (OIOS was then told that the LCC was meant to review procurement only over \$25,000). Furthermore, OIOS observed that the documentation of the meeting proceedings was not sufficient to demonstrate that the LCC exercised an active role in the procurement and its role appeared to be more of a formality than an effective review of procurement cases. There was no separate file for LCC meeting minutes and OIOS could not establish how many times LCC had met.

Recommendation 21

(21) To enhance the effectiveness of the Afghanistan Local Contract Committee (LCC), UN-HABITAT Afghanistan should produce a terms of reference for the operation of the LCC and ensure that the LCC exercises its functions as intended in the UN Procurement Manual, which should include clarifying the LCC threshold, proper training of LCC members and maintaining adequate documentation on the meetings.

59. *UN-HABITAT accepted recommendation 21 and stated that it would be implemented immediately. Manual for the LCC was established and practiced under the Municipal Public Works Programme in 2003. This was prepared to be in conformity with UN Procurement Rules and Procedures. The continuity of the LCC practice had been neglected due quick staff turnover. This Manual will be reintroduced with immediate effect.* Recommendation 21 remains open pending receipt of a copy of the terms of reference for the operation of the LCC, and documentation clarifying the LCC threshold, explaining arrangements for proper training of LCC members and documentation of meetings.

Bidding and evaluation

60. The procurement function was performed by the logistics sub-unit of PSU headed by a logistic officer and assisted by five staff. Total procurement in 2006 amounted to approximately \$3 million. OIOS reviewed seven cases of procurement with approximate value of \$330,000 processed in 2005 and 2006 and noted the following weaknesses:

(a) According to the UN Procurement Manual and as required by the delegation of authority to the head of UN-HABITAT Afghanistan, a formal bidding process should be followed for the procurement actions over \$25,000. However, OIOS observed that the practice lacked sufficient documentary evidence to support the adequacy of the formal Request for bidding or opening of bid by A separate bid opening committee; and

(b) There was also insufficient documentation to support that UN-HABITAT Afghanistan established and followed selection criteria including financial and technical aspects to assist its selection

of vendors or specific brand in spite of requirements of its own procurement guidelines.

Recommendation 22

(22) To enhance the transparency of the procurement process, UN-HABITAT Afghanistan, in consultation with UNON, should implement procedures to ensure that formal bidding and technical evaluation process is followed in procurement actions over \$25,000.

61. *UN-HABITAT accepted recommendation 22 and stated that it would be implemented immediately. The Manual for the LCC covers this. Recommendation 22 remains open pending receipt of a copy of the procedures to ensure that formal bidding and technical evaluation process is followed in procurement actions over \$25,000.*

Procurement plan

62. OIOS noted that there was no coordinated plan for procurement and UN-HABITAT did not have a grasp of the extent of the procurement activities in UN-HABITAT Afghanistan. The total amount of procurement by major items was prepared upon specific request by the audit team as UN-HABITAT Afghanistan was not maintaining such information. OIOS was told that the procurement plan could not be effectively carried out due to the fact that its operation is based on individual project and the procurement was decentralized across the country. The absence of a procurement plan contributed to a practice of ad-hoc procurement of recurring items. For example, fuel (annual cost of approximately \$206,000) was purchased in the local market on monthly basis based on quotations; \$1.6 million of vehicle rentals were also based on the monthly contracts in the district level. The mobile telephone top-up card of \$96,000 was procured ad-hoc bases without quotation as the price is fixed. However, the discount on Bulk purchase should have been explored.

Recommendation 23

(23) To enhance the efficiency of procurement for its most significant and recurring purchase categories such as fuel, car rental, telephone card and money supplier services, UN-HABITAT Afghanistan should create a procurement plan with due consideration of available options and strategies for procurement.

63. *UN-HABITAT accepted recommendation 23 and stated that it would be implemented by 31 December 2007. All options of recurring procurement will be explored. Car rental has major security implications since the drivers are provided by the rental companies. In the absence of any screening system, cars have to be rented from very reliable sources. In this case local prudence will have to be applied. Recommendation 23 remains open pending receipt of a copy of the procurement plan.*

Community contracts

64. Community contracts were entered into with communities for infrastructure work that communities themselves had identified. This was achieved by establishing Community Development Councils, and assisting them to plan and implement local infrastructure projects. OIOS was provided with a list of 380 contract lists in 2005 and 2006 amounting to approximately \$5.5 million. UN-HABITAT explained that the Community contract is one of its most critical project implementation tools as these community-based projects seek to empower communities through improved local governance, rural reconstruction and the enhancement of government effectiveness.

65. UN-HABITAT Afghanistan appeared to have developed adequate procedures and controls in awarding, monitoring and evaluation of performance of contracts, which would be further documented and compiled in a manual to ensure consistency in application and also to help other countries' projects that would have similar project activities. Yet there is no official definition of what a community contract is. Several terminologies are used interchangeably such as memorandums of agreement, community contract, and community block grant and it could not be determined whether a community contract falls under procurement or cooperation agreement, each of which has different procedures and contractual tools.

66. OIOS appreciated that in December 2006, the need for clarification on the use of community contract had been recognized by ROAP. OIOS consulted with the UN-HABITAT legal officer who expressed her opinion that the community contract has characteristics of procurement, but requires further review as it had never been officially brought to her attention.

Recommendation 24

(24) To further enhance the effectiveness of community contracts as a project implementation tool, UN-HABITAT should establish a definition of a community contract and clarify the corresponding policies for its use.

67. *UN-HABITAT accepted recommendation 24 and stated that it would be implemented by 31 December 2007. ROAP has prepared the draft policy, guidelines and standard contract for Community Contracts. These will be submitted to PSD for legal clearance and authorization for field Project Managers to enter into Community Contracts. Recommendation 24 remains open pending receipt of a copy of the definition of a community contract and policies for its use.*

G. Assets Management

68. UN-HABITAT Afghanistan maintains an inventory record in an Excel spreadsheet, which included more than 1,000 items valued at more than \$1.5 million as of February 2007. The inventory record is designed to record relevant

particulars. However, OIOS could not be assured that the inventory records were complete and accurate:

- (a) The inventory record did not show the exact custodian in most of the cases, raising risk of non-accountability of inventory items. OIOS was informed at the time of producing this draft report that efforts were underway to update these particulars;
- (b) The inventory records were maintained in an Excel spreadsheet without appropriate security measures to prevent alteration or loss;
- (c) While continuous efforts were being made, about seven percent (76 out of 1022) of the items did not show a value due to the unavailability of related information; and
- (d) UN-HABITAT Afghanistan was yet to record 37 inventory items donated in February 2005, which lacked detailed information such as their price and date of purchase.

69. Furthermore, UN-HABITAT Afghanistan did not establish a policy on physical inventory and has never carried out a comprehensive physical inventory. OIOS was informed that stock taking of items belonging to Youth Empowerment Project (YEP) and Inter-community Rural Development Project (IRDP) had been completed in Kabul. However, there was no documentation explaining the process and the result of the exercise to assess its adequacy. Physical inventory is necessary not only as a critical internal control to verify the existence of assets but also to identify any obsolete items for disposal to obtain maximum benefit.

Recommendation 25

(25) To improve arrangements for inventory management, UN-HABITAT Afghanistan should put in place procedures covering a regular physical inventory to identify any missing or obsolete items for subsequent actions and to ensure the completeness of inventory records.

70. *UN-HABITAT accepted recommendation 25 and stated that it would be implemented by 31 December 2007. The process has started but due to the scattered premises all over the country it will take three months to complete. Recommendation 25 remains open pending receipt of a copy of the procedures covering the regular physical inventory.*

V. ACKNOWLEDGEMENT

71. We wish to express our appreciation to the Management and staff of UN-HABITAT for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. No.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Receipt of a copy of the strategy and policy document covering its long term goals in Afghanistan, approved by Director of the Regional Office and the Regional and Technical Cooperation Division.	31 December 2007
2	O	Receipt of a copy of the strategic planning and monitoring framework for the Afghanistan operations.	31 December 2007
3	O	Notification of whether it is covered by the agreement signed between the Government of Afghanistan and the United Nations Assistance Mission in Afghanistan or the usual UNDP host country agreement or whether it needs a separate host country agreement in Afghanistan.	31 December 2007
4	O	Receipt of a copy of organizational structure and funding arrangement for Afghanistan country level operations.	31 December 2007
5	O	Receipt of a copy of procedures detailing the arrangements for establishment, monitoring and oversight of delegation of authority and corresponding resources; and a copy of the delegation of authority for Afghanistan operations.	31 December 2007
6	O	Receipt of a copy of the compiled local policies and procedures in place in Afghanistan.	31 December 2007
7	O	Copy of documentation clarifying the respective roles and responsibilities of ROAP and UNON for service delivery to its Afghanistan operation.	31 December 2007
8	O	Pending receipt of a copy of report outlining the results of the review and notification of the outcome of discussions with donors, where appropriate.	31 December 2007
9	O	Copy of the guidelines for accounting and treatment of common resources, as part of its ongoing work in developing an operational manual for field activities.	31 December 2007
10	O	Notification of the outcome of discussions with donors on the use of the \$124,000.	31 December 2007
11	O	Receipt of a copy of guideline for establishing, monitoring and reviewing imprest accounts.	31 December 2007
12	O	Receipt of a copy of guideline on the obligation of project expenditures and notification of who is the official certifying officer for Afghanistan projects.	31 December 2007
13	O	Notification of the arrangements approved by OHRM for recruitment, administration and performance monitoring and related delegation of authority for the use of consultants in Afghanistan.	31 December 2007
14	O	Receipt of documentation explaining the revised arrangements for decentralising the leave monitoring.	31 December 2007
15	O	Receipt of documentation explaining the criteria to decide when travel advances could be made.	31 December 2007
16	O	Receipt of a copy of the guideline explaining the template to use, clearance procedures and monitoring of travel claim forms.	31 December 2007
17	O	Notification of the recruitment of an IT manager and documentation explaining the IT needs and requirements, including the replacement of software applications.	Timing would be dependent on funding and ability to recruit appropriate person.
18	O	Confirmation of the establishment of a database to hold the security training requirements of each staff member.	31 December 2007

19	O	Receipt of documentation describing the security measure put in place and how compliance will be monitored.	31 December 2007
20	O	Receipt of documentation describing the current security gaps, the steps to be taken to address these issues, and the arrangements for monitoring compliance.	31 December 2007
21	O	Receipt of a copy of the terms of reference for the operation of the LCC, and documentation clarifying the LCC threshold, explaining arrangements for proper training of LCC members and documentation of meetings.	Immediately
22	O	Receipt of a copy of the procedures to ensure that formal bidding and technical evaluation process is followed in procurement actions over \$25,000.	Immediately
23	O	Receipt of a copy of the procurement plan.	31 December 2007
24	O	Receipt of a copy of the definition of a community contract and policies for its use.	31 December 2007
25	O	Receipt of a copy of the procedures covering the regular physical inventory.	31 December 2007

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