



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of UN-HABITAT Financial Management

11 July 2008

Assignment No. AA2007/250/01

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mrs. Anna Tibaijuka, Executive Director

DATE: 11 July 2008

A: UN-HABITAT

REFERENCE: IAD: 08- 01536

FROM: Dagfinn Knutsen, Director

DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AA2007/250/01 – Audit of UN-HABITAT Financial Management**

OBJET:

1. I am pleased to present the report on the above-mentioned audit.
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 2, 5, 6 and 9), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Antoine King, Director, Programme Support Division, UN-HABITAT
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
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 UN-HABITAT Financial Management

OIOS conducted an audit of financial management at the United Nations Human Settlements Programme (UN-HABITAT). The overall objective of the audit was to assess the adequacy of the arrangements for UN-HABITAT financial management. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The overall conclusion is that UN-HABITAT had adequate procedures for its financial management in accordance with United Nations Financial Regulations and Rules with the following exceptions:

- UN-HABITAT Programme Support Division needed to put mechanisms in place to review and monitor the delivery of financial management services rendered by United Nations Office at Nairobi via the service level agreement to ensure UN-HABITAT receives value for money.
- The Programme Support Division needed to develop a plan to track and monitor its performance during the biennium to gauge whether it was meeting its targets.
- UN-HABITAT agreed to take action to ensure a consistent approach is adopted to United Nations financial rules from which it is exempt, and that roles and responsibilities in the creation, approval and dissemination of financial policies and procedures are clarified.
- The procedures for recording contributions, issuing receipts and allocating earmarked contributions should be strengthened to ensure timely accounting for contribution.
- UN-HABITAT should streamline procedures for validating the completeness and accuracy of income relating to programme support services.

UN-HABITAT has accepted all the recommendations.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of financial management at the United Nations Human Settlements Programme (UN-HABITAT). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. UN-HABITAT's functions relating to financial operations have been outsourced to the United Nations Office at Nairobi (UNON) since 1 January 1996. The core functions UNON provides to UN-HABITAT were established by ST/SGB/2000/13 (organisational structure of UNON). Under a Service Level Agreement (SLA) signed in 2004, UNON and UN-HABITAT clarified the nature and scope of the particular services provided by UNON. The Programme Support Division (PSD) is the division responsible for the financial management of UN-HABITAT.
3. Table 1 below depicts approved budget for the biennium 2004-2005 and 2006-2007. Foundation refers to the trust fund which receives voluntary contributions from Member States and other donors to fund activities of UN-HABITAT's work programme.

Table 1: UN-HABITAT budget in million of dollars

Source of funding	2006-07	2004-05
Regular Budget (RB)	16.5	16.5
Foundation – general purpose	26.5	23.5
Foundation – special purpose	56.5	45.2
Technical cooperation	66.9	66.9
Totals	166.5	152.1

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

II. AUDIT OBJECTIVES

5. The overall objective of the audit was to assess the adequacy of the arrangements for UN-HABITAT financial management. This included assessing:
 - (a) Whether UN-HABITAT had provided UNON and UN-HABITAT staff with adequate guidance and support for the execution of their financial management responsibilities;
 - (b) The adequacy of internal controls and procedures for financial management;
 - (c) Compliance with United Nations Regulations and Rules, UN-HABITAT Financial Regulations and Rules, and related circulars on financial matters issued by UNON and UN-HABITAT; and
 - (d) The integrity of data for financial management decision making.
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III. AUDIT SCOPE AND METHODOLOGY

6. OIOS focused on the arrangements put in place by UN-HABITAT for financial management and the audit covered financial activities occurring in the 2006–2007 biennium. The audit included a review and risk assessment of internal control systems, interviews with staff, analyses of applicable data and reviews of the available documents and other relevant records.

7. The following aspects of financial management, which are common to all organizations serviced by UNON, were dealt with in the UNON Financial Management audit report (AA2006/211/01):

- Delegation of authority for financial matters
- Policies and procedures
- Receipt of funds
- Investments
- Expenditure control
- Corporate credit cards
- Accruals based accounting
- Accounts receivable
- Inter Office Vouchers.

8. The audit did not review the financial statements, which are audited separately by the Board of Auditors.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Governance

Approval of financial decisions

9. Adequate arrangements were in place for approval of financial decisions relating to extra budgetary funding of the Foundation. UN-HABITAT Governing Council (GC), the policy-making organ of UN-HABITAT, approved resolutions on UN-HABITAT's financial matters relating to the Foundation, taking into account General Assembly (GA) resolutions, which govern the financial administration of UN-HABITAT.

Monitoring and reporting of the status of the UN-HABITAT GC financial decisions

10. Adequate arrangements were in place for monitoring and reporting the status of GC financial decisions. The decisions were recorded and tracked by the Office of the Executive Director and implementation was monitored by PSD.

11. PSD provided quarterly financial reports to the Committee of Permanent Representative (CPR) which contained financial information on (i) approved

expenditure budget (allotments) in the year by source of funding (i.e. Regular Budget, Foundation, Programme Support) and (ii) the status of contributions (both earmarked and voluntary). While the information presented was accurate, it was not comprehensive and did not include all the available resources or the expenditures charged to the various funds. For example, information on sub-programmes resources and how the actual resources compare with the budget was missing. UN-HABITAT took action during the audit to improve the financial information provided to CPR and as a result distributed expanded information to the CPR meeting held in March 2008. In view of the action taken, no recommendation is raised.

B. Structure and function

Structure and function of PSD

12. PSD did not provide any documentation explaining its roles and responsibilities for financial management. In the absence of such documentation, OIOS concluded that the structure and functions of PSD units were unclear and may not have been approved by the Executive Director, UN-HABITAT. UN-HABITAT took action during the audit and an approved structure together with details of roles and responsibilities for each unit were provided. In view of the action taken, no recommendation is raised.

Reporting lines of Programme Management Officers (PMO)

13. The PMOs are embedded in UN-HABITAT substantive divisions (Divisions), with responsibility to provide administrative and financial management support to Division Directors. From 1 April 2007, the PMOs reported to PSD but remained outposted to the Divisions. Previously the PMOs had reported to the Division Directors with a dotted reporting line to PSD. While this move strengthened PSD ability to maintain financial control over UN-HABITAT operations, it was not accompanied by any documentation explaining how Division Directors would still hold PMOs accountable for administrative and financial management support provided to them. There has been no communication explaining to PMOs what their roles and responsibilities were to ensure that PSD and Division Directors each know what they could expect from PMOs for accountability purposes.

Recommendation 1

(1) The UN-HABITAT Administration should clarify the roles and responsibilities Programme Management Officers’.

14. *The UN-HABITAT Administration accepted recommendation 1.* Recommendation 1 remains open pending receipt of documentation clarifying the roles and responsibilities of PMOs.

C. Financial services rendered by UNON

15. For the biennium 2006–2007, UN-HABITAT budgeted around \$2.4 million to cover services provided by UNON. The SLA signed in June 2004 between UNON and UN-HABITAT clarified the nature and scope of services provided by UNON, including budget and financial management services for which benchmarks were established. Arrangements were also put in place for regular review and update of the SLA each biennium. PSD had responsibility for undertaking this review and monitoring the delivery of services but had not established any mechanisms to collect and analyze information on UNON performance. Consequently, it was unclear on what basis UN-HABITAT reviewed and assessed whether it received the agreed level and quality of services. It was also unclear how UN-HABITAT identified whether changes and adjustments needed to be made to the SLA to reflect changes in their needs in terms of nature and type of delivery times and services required.

Recommendation 2

(2) The UN-HABITAT Administration should establish mechanisms for identifying and collecting information required to determine whether the benchmarks in the Service Level Agreement are being met or need to be adjusted.

16. *The UN-HABITAT Administration accepted recommendation 2.* Recommendation 2 remains open pending receipt of documentation demonstrating the establishment of mechanisms for monitoring the performance of the SLA and identifying whether changes need to be made to it.

D. Human resources

Training

17. UN-HABITAT did not have in place any formal training arrangements for PSD covering such things as staff needs and number of days of training staff should receive each year. There was no centralized record of training undertaken and no training budget had been allocated to PSD. In addition, there was no mechanism in place to ensure that, once recruited, PMOs received regular training to maintain their capability to adequately discharge their responsibilities in key areas such as use of the Integrated Management Information System (IMIS) and project management. The lack of such arrangements, coupled with the lack of an operational manual, increased the likelihood of staff failing to ensure that financial matters were handled efficiently and in accordance with the United Nations Regulations and Rules.

Recommendation 3

(3) The UN-HABITAT Administration should undertake an exercise to identify the training needs of the Programme Support Division and the resources required to implement an

annual training plan to ensure required professional knowledge is maintained over time.

18. *The UN-HABITAT Administration accepted recommendation 3.* Recommendation 3 remains open pending receipt of documentation of the financial training needs of the PMOs and a related annual training plan.

E. Financial policies and procedures

Exemptions from the Financial Regulations and Rules of the United Nations

19. ST/SGB/2006/8 Special Annex for United Nations HABITAT and Human Settlements Foundations (Series 300) to Financial Regulations and Rules of the United Nations (Series 100) contains the financial rules and regulations specific to UN-HABITAT in addition to the general Financial Regulations and Rules of the United Nations. The Special Annex was revised, effective August 2006, to include authorities and modalities for lending and borrowing operations. However, the revised Special Annex does not provide UN-HABITAT with any other exceptions to the UN Regulations and Rules other than the ones existing since 1978. UN-HABITAT confirmed that it did not require any additional exemptions, beyond those that it had already obtained.

20. UN-HABITAT needed to strengthen existing arrangements to ensure that regional and field offices had access to and only used approved financial policies and procedures:

- There were no controls in place to prevent regional and field offices from developing and implementing their own financial policies and procedures. Consequently, UN-HABITAT Afghanistan field office had developed several administrative guidelines for procurement, imprest accounts, cash advances and local recruitment.
- New PMOs were provided with an electronic copy of UN-HABITAT and United Nations financial policies and procedures but the information provided was not always up to date.
- UN-HABITAT and United Nations financial policies and procedures were placed on the UN-HABITAT intranet to ensure staff had access to the most recent versions. However, not all of the policies or procedures were on the intranet and not all field offices had access to the intranet.
- The PSD workplan did not include any activities for the creation, dissemination, and review of financial policies and procedures.
- There was no mechanism for follow up or monitoring compliance to identify where additional guidance or training might be required to cope with local conditions.

Recommendation 4

(4) The UN-HABITAT Administration should establish a mechanism for monitoring and overseeing regional and field office compliance with financial policies and procedures. This should include: instructions to regional and field offices not to create local procedures without consultation with Programme Support Division; arrangements to ensure that these offices have access to updated copies of relevant rules; and, a regular programme of site visits to review compliance and identify issues.

21. *The UN-HABITAT Administration accepted recommendation 4.* Recommendation 4 remains open pending receipt of documentation outlining a mechanism for monitoring and overseeing regional and field office compliance with financial policies and procedures.

F. Financial reporting and monitoring

Service delivery and performance monitoring

22. PSD lacked tools to monitor and assess the quality of its financial service delivery. It also lacked a correspondence tracking system and had no milestones or benchmarks in place against which to monitor its performance. PSD was therefore not in a position to explain whether anything, financial or otherwise, was delayed and determine the causes.

23. PSD had established some indicators of achievement in its Programme of Work to assess its performance. However, it could not demonstrate that periodical review and monitoring of the indicators were conducted during the biennium on how the targets were being met. UN-HABITAT was unable to gauge PSD performance.

24. In 2006, PSD contracted a consulting firm to “provide UN-HABITAT with an assessment of (i) the functions under the core administrative processes at headquarters, regional offices and field projects; (ii) the adequacy of the administrative systems and processes in place to implement the programmes and projects in an effective, efficient and accountable manner; and (iii) the service providers for the optimal processes”. The final report observed slow processing speed, excessive bureaucracy and lack of customer orientation which led to significant levels of dissatisfaction of both service providers, UNON and PSD. The report also recommended some corrective actions for PSD. No follow up action had been taken to address the deficiencies found in the consultant’s report.

Recommendation 5

(5) The UN-HABITAT Programme Support Division should develop a plan to track and monitor its performance.

25. *The UN-HABITAT PSD accepted recommendation 5. Recommendation 5 remains open pending receipt of PSD plan to track and monitor its performance.*

G. General purpose contribution

Resource-mobilization strategy

26. The GC, in its resolution 20/19 of April 2005, requested UN-HABITAT to develop a resource-mobilization strategy for presentation at its twenty-first session. During 21st session of the GC (April 2007), UN-HABITAT tabled a resource mobilization strategy as part of its Medium-Term Strategic and Institutional Plan (MTSIP) for 2008-2013. The strategy was approved with the exception of the proposal to establish a voluntary indicative scale of contribution. There were adequate mechanisms in place for overseeing and implementing the strategy such as (i) a steering committee, (ii) a task force with terms of reference, (iii) road map with milestones and (iv) a plan to establish a resource mobilization.

Timeliness in recording of contribution and writing of pledges

27. A sample of donor contributions received in the biennium 2006-2007 totaling \$5.7 million were reviewed and delays were noted in:

- Recording the contributions in IMIS (delays ranging from two weeks to two months);
- Issuing receipts (delays ranging from five weeks to three months); and,
- Allocating earmarked contributions. In the month of August 2007, a total of eight deposits totaling approximately \$1 million were still unapplied with delays ranging from one to six months.

Recommendation 6

(6) The UN-HABITAT Administration should establish procedures to ensure timely recording of contributions, issuance of receipts and allocation of contributions.

28. *The UN-HABITAT Administration accepted recommendation 6. Recommendation 6 remains open pending receipt of a copy of the procedures to ensure timely recording of contributions, issuance of receipts and allocation of contributions.*

Financial reserve

29. UN-HABITAT could not explain the basis for the financial reserve figure, which was \$2,419,100 at the time of the audit. It was also unable to demonstrate that the current level of the reserve was sufficient to meet its purpose i.e., to ensure the financial liquidity and integrity of the United Nations Habitat and Human