

United Nations  Nations Unies

BOARD OF AUDITORS

TEL.: 1 (212) 963.5623

23 July 2015

Dear Mr. Clos,

Subject: Report of the Board of Auditors

I am pleased to enclose a copy of the Board of Auditors' Report on the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2014 and the audited financial statements.

Sincerely Yours,

With regards,

Anjana Das

Anjana Das
Executive Secretary

Mr. Joan Clos
Under-Secretary-General
and Executive Director
United Nations Human Settlements Programme (UN-Habitat)
Nairobi, Kenya

General Assembly
Official Records
Seventieth Session
Supplement No. 51

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United Nations Human Settlements Programme

**Financial report and audited
financial statements**

for the biennium ended 31 December 2014

and

Report of the Board of Auditors



United Nations • New York, 2015



Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letter of transmittal

**Letter dated 31 March 2015 from the Executive Director of the
United Nations Human Settlements Programme addressed to the
Chair of the Board of Auditors**

In accordance with regulation 6.2 and rule 106.1 of the United Nations, I have the honour to transmit the financial report and accounts of the United Nations Human Settlements Programme, including associated trust funds and other related accounts, for the year ended 31 December 2014, which I hereby approve.

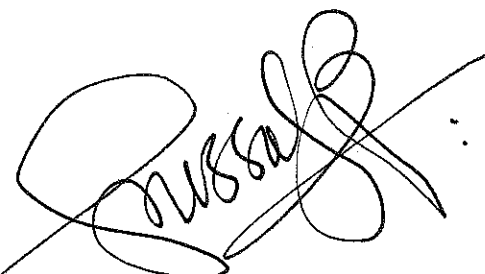
Copies of these financial statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

(Signed) Joan Clos

Executive Director

**Letter dated from the Chair of the Board of Auditors addressed to the
President of the General Assembly**

I have the honour to transmit to you the report of the Board of
Auditors on the financial statements of the United Nations Human
Settlements Programme for the year ended 31 December 2014.

A handwritten signature in black ink, appearing to read 'Mussa Juma Assad', written in a cursive style with large loops and a long horizontal stroke extending to the left.

Mussa Juma Assad

Controller and Auditor General of the
United Republic of Tanzania

Chair of the United Nations Board of Auditors

(Lead Auditor)

Chapter I

Report of the Board of Auditors on the financial statements of the United Nations Human Settlements Programme: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Human Settlements Programme (UN-Habitat), which comprise the statement of financial position as at 31 December 2014 (statement I), the statement of financial performance (statement II), the statement of changes in net assets (statement III), statement of cash flows (statement IV) and statement of comparison of budget and actual amounts (statement V); for the year then ended, and notes to the financial statements.

Responsibility of management for the financial statements

The Executive Director of UN-Habitat is responsible for the preparation and fair presentation of these financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable

the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements, as a whole, are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

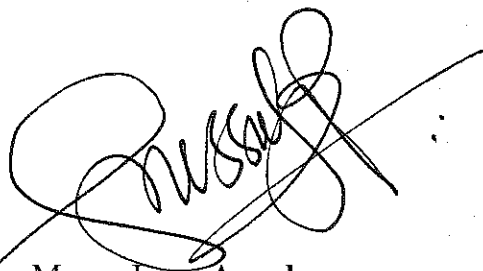
In our opinion, the financial statements present fairly, in all material respects, the financial position of UN-Habitat as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

Further to our opinion, the transactions of UN-Habitat that have come to our notice, or that we have tested as part of our

audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UN-Habitat.



Mussa Juma Assad
Controller and Auditor General of the
United Republic of Tanzania
Chair of the United Nations Board of Auditors
(Lead Auditor)



Sir Amyas C. E. Morse
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland



Shashi Kant Sharma
Comptroller and Auditor-General of India

30 June 2015

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Human Settlements Programme (UN-Habitat) promotes socially and environmentally sustainable towns and cities, with the goal of providing adequate shelter for all. This includes providing information and support to Member States for developing policies and legislation to improve living conditions, as well as supporting operational activities, for example, improved water provision and sanitation.

The headquarters of UN-Habitat is in Nairobi. It has four main regional offices covering Africa, the Arab States, Asia and the Pacific, and Latin America and the Caribbean. It also has liaison and information offices in New York, Brussels, Geneva, Moscow, Beijing, Chennai (India), Amman and Budapest and project offices in many other countries and cities across the globe. UN-Habitat employs some 338 core staff, approximately 102 of whom are based in offices away from headquarters, along with fluctuating numbers of staff on specific contracts, in particular in field offices.

The total revenue of UN-Habitat for the year 2014 was \$205.44 million, while total expenses were \$194.02 million, resulting in a surplus of revenue over expenses of \$11.42 million for the year.

The Board of Auditors has audited the financial statements and reviewed the operations of UN-Habitat for the year ended 31 December 2014. The audit was carried out through the examination of the financial transactions and operations at the headquarters in Nairobi and field visits to the country offices in Egypt, Iraq, Pakistan, Myanmar, Sri-Lanka and Palestine.

Scope of the report

The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and has been discussed with UN-Habitat management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UN-Habitat operations under United Nations financial regulation 7.5, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined six main areas of UN-Habitat activities: programme and project management, Budget processing and monitoring, Result based management, Assets management, IPSAS implementation and Financial management and reporting as well as a detailed follow-up of action taken in response to recommendations made in previous years.

Audit Opinion

The Board has issued an unqualified audit opinion on the financial statements for the period under review as reflected in chapter I.

Overall conclusion

UN-Habitat adopted International Public Sector Accounting Standards (IPSAS) in 2014. The adoption of IPSAS brought about significant changes of the accounting policies of UN-Habitat. These include the Preparation of financial statements on an annual as compared biennial

requirement of United Nations Systems Accounting Standards (UNSAS) which is a modified cash basis. The adoption of the new accounting policies has resulted in significant changes to the assets and liabilities recognition. The Board's analysis of UN-Habitat's financial position as at 31 December 2014 notes good financial health.

While the Board notes the successful first time implementation of the IPSAS accounting framework and commends UN-Habitat for this major achievement, during its reviews, it noted some deficiencies in financial statement presentation, recognition and valuation of assets and liabilities. Other areas with scope for improvement included programme and project management, Budget implementation, Result based management and Assets management. The Board further notes that, the Administration took positive steps to reconcile and revised financial statements before issuing this report.

The Board, however, considers that UN-Habitat is now facing the challenge of improving systems, control operations, decision making processes and financial management to realise the benefits of the improved financial information which the IPSAS based accounting framework provides. To ensure there is timely performance and accountability in the context of a decentralized structure, UN-Habitat also needs to consider further strengthening the oversight and monitoring of field-level activities.

Key findings

The Board highlights the following key findings:

Underutilization of annual allocated funds

The Board noted from country visits¹ and evaluation reports that there were projects budget under-utilization ranging from five to 67 per cent of the allotted budgets for the year 2014. UN-Habitat attributed the budget under-utilization to political instability in three countries of implementation as well as long procedures and processes for recruitment of experts required for the projects in one country.

The Board acknowledges the challenges faced by UN-Habitat but it is of the view that running the projects without the required expertise from the start, retarded the progress of the projects significantly. As the recruitment process is within the purview of management, there was a possibility of determining risks that could impact the projects and the ways of managing them well in advance of the projects start dates. As a result of the delays, the large underutilization of the allocated funds will result in

¹ The Board visited Egypt, Iraq, Myanmar, Pakistan, Palestine and Sri - Lanka

substantial delay of realization of the projects' intended benefits.

Lack of performance indicators, targets and baselines in the project

Annual Work Plans

The Board found that annual work plans² for seven projects at one Programme Office did not have the required three components of RBM namely; performance indicators, targets and baseline data. Also, it was found that UN-Habitat has not developed an RBM policy and manual to provide guidance on how to implement RBM. The Board is of the view that without clear guidance and the necessary RBM components for benchmarking; UN-Habitat cannot make any meaningful assessment of its achievements.

Main Recommendations

In summary, the Board recommends that UN-Habitat:

- (a) (i) determine in advance of the execution phase the risks that might affect projects implementation in order to minimise the negative consequential effects of delaying the intended benefits to the societies**

² The Board reviewed annual work plans of nine projects, with a total cumulative budget of \$23.73 million for the period from 2008 to 2014

involved; and (ii) plan the recruitment process of experts in the field office to ensure there is timely and adequate staffing for improved projects performance.

(b) make the assessment of its achievements more meaningful by collaborating with the Programme Office to ensure the annual work plans are aligned with performance indicators, targets and baseline data.

Key facts

\$199.96 million:	Original Core and Earmarked budget
\$213.66 million:	Final Core and Earmarked budget
\$205.44 million:	Revenue
\$194.02 million:	Expenses
338:	UN-Habitat staff

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of UN-Habitat and has reviewed its operations for the financial period ended 31 December 2014 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards. This included an assessment as to whether the expenses recorded in the financial statements

had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. The Board also reviewed UN-Habitat operations under United Nations financial regulation 7.5, which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations.

4. During the course of the audit, the Board visited UN-Habitat headquarters in Nairobi and examined country office operations in Egypt, Iraq, Pakistan, Myanmar, Sri-Lanka and Palestine. The Board continued to work collaboratively with the Office of Internal Oversight Services to provide coordinated coverage.

B. Findings and recommendations

1. Follow up of previous years recommendations

5. As at April 2015, of the 15 recommendations made for biennium 2012-2013 and previous years, three (20 per cent) remained under implementation, 11 (73 per cent) had been implemented and one (7 per cent) not implemented. Details are attached as annex I of this report.

6. The recommendations that were under implementation required the decision to set up specific arrangement for funding UN-Habitat's liabilities for end-of-service and post-retirement benefits, identifying a suitable partner to run the Experimental Reimbursable Seeding Operations Trust Fund and improvement on the monitoring of project budget implementation.

7. The recommendation considered not implemented requires UN-Habitat to review the cost and benefits of introducing procedures to mitigate exchange rate risks and losses in which case UN-Habitat explained that the implementation of the recommendation is beyond their authority. It is the Board's view that UN-Habitat management has a duty to protect the entity from losses arising from exchange rate fluctuations.

2. Financial overview

Financial position

8. As at 31 December 2014, UN-Habitat net assets were \$323.23 million which showed an increase of \$7.07 million (or 2.2 per cent) from the opening balance of \$316.16 million as at 01 January 2014. The overall financial position confirms that UN-Habitat remains financially sound and there are sufficient assets to meet liabilities.

Revenue and expenses

9. Total revenue for the period under review was \$205.44 million, while total expenses amounted to \$194.02 million, resulting in a surplus of \$11.42 million. Also, in 2014, the Net voluntary contributions amounted to \$183.2 million, representing 89 per cent of the total revenue for the year.

Ratio analysis/financial indicators

10. The table below analyses ratio for 2014 and overall, the ratios indicate that UN-Habitat has good liquidity position and can meet its short term obligations with its liquid assets.

Table 1:

Ratios analysis: (a ratio above 1 times is high)

<i>Description of ratio</i>	<i>31 December 2014</i>	<i>1 January 2014</i>
Current ratio^a		
Current assets: current liabilities	4.72	3.78
Total assets: total liabilities^b		
Assets: liabilities	3.89	3.66
Cash ratio^c		
Cash plus investments: current liabilities	1.57	4.58
Quick ratio^d		
Cash + investments + accounts receivable: current liabilities	3.94	4.58

Source: UN-Habitat - 2014 financial statements

Notes to Table 1

^a A high ratio indicates an entity's ability to pay off its short-term liabilities.

^b A high ratio is a good indicator of solvency.

^c The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

^d The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

3. Implementation of IPSAS

11. The General Assembly, in its resolution 60/283 of 2006 endorsed the adoption of International Public Sector Accounting Standards (IPSAS) by the United Nations to replace the United Nations System Accounting Standards (UNSAS). The United Nations Human Settlement Programme (UN-Habitat) adopted IPSAS effective from 1 January 2014.

12. The change in reporting standards requires entities to develop a series of IPSAS compliant accounting policies relevant to its circumstances. It also requires UN-Habitat to re-consider its assets and liabilities as at 31 December 2013 and make appropriate adjustments to ensure that the opening balances at 1 January 2014 are IPSAS compliant.

13. IPSAS compliant financial statements were prepared for the first time in 2014. The Board's review of the first IPSAS opening balances and the end of year financial statements as well as evaluation of the appropriateness of the IPSAS accounting policies did not identify material errors or deviations from IPSAS relating to the financial statements. However, during the course of audit, certain deficiencies were noted but were subsequently rectified by the management in the revised financial statements. These related to overstatement of Cash and Cash equivalent by \$0.54 million and overstatement of savings by \$0.46 million as a result of understating expenses. The Board also noted that 36 per cent of all assets were fully depreciated but still in use while management had not reassessed their useful lives, and there were project assets of \$11 million which were disposed of after audit concerns.

14. While we acknowledge UN-Habitat has successfully completed the transition of its accounts to IPSAS compliant financial statements we also recognise the challenges that were faced by the Administration in making

this transformational change. These include noted deficiencies as presented below which were not adjusted as management consider them to be quantitatively immaterial, but the Board is of the view that they should also be rectified because they have a potential risk of misstatement.

- (i) *Lack of standard operating procedures for assets below PPE threshold*

15. The Board found that UN-Habitat uses the IPSAS Policy Framework which was prepared by UN Headquarter as guidance on the application of IPSAS across all UN organizations. However, this policy framework does not provide for the treatment and accounting for project assets and those assets which fall below the established recognition threshold of \$5,000. UN-Habitat assets of \$0.3 million below the threshold which were appropriately expensed but they lacked adequate tracking records due to the absence of UN-Habitat's own IPSAS compliant Standard Operating Procedures (SOP) that would guide all offices on how they should be accounted for separately for safeguarding and uniformity purposes.

16. UN-Habitat explained that it has procedures in place to capture assets data accurately, including assets that are below the IPSAS threshold and not covered by the UN IPSAS policy framework. Further, management

stated that it is finalising SOP for Assets management which will include both IPSAS and non IPSAS items.

17. However, the Board's follow-up noted that the said draft was not a specific SOP for the treatment of assets below PPE threshold, but was in fact an end-of year stock count procedures. The Board considers that creation of SOP specific for those assets remains an important activity for recording and safeguarding all assets.

(ii) *Incorrect recognition of loans*

18. The Board found that recognition of loans receivable included a total of \$1.6 million as at 31 December 2014. The amount includes outstanding concessionary loans issued to four implementing partners on the Experimental Reimbursable Seeding Operation (ERSO) Trust Fund. However, the Board noted that the loans were not recognized at fair value as required by IPSAS 29 (Application Guide 89) and Para 27 of IPSAS 30.

19. IPSAS 29 recognizes the existence of concessionary loans and defines them as "*loans granted to or received by an entity at below market terms which include housing loans granted to low income families*". Moreover, Paragraph 37 of IPSAS 30 requires disclosure of these loans by showing reconciling the opening and closing carrying amounts, nominal

value of the loans at the end of the period, the purpose and terms of the various types of loans as well as valuation assumptions.

20. UN-Habitat explained that UNON, who are responsible for preparation of the financial statements, reviewed the possible valuation of the loans and found that the amount was immaterial. While the Board notes the management response, it is of the view that management needs ensure its approach to the valuation of and recognition of components of financial statements fully complies with provisions of IPSAS.

21. **The Board recommends that UN-Habitat strengthen its internal mechanisms to (a) improve the preparation, presentation and accuracy of financial statements, (b) develop its own Standard Operating Procedure for to provide guidance on the recording and accounting for the assets that are not covered by the United Nations IPSAS policy framework; and (c) ensure that all outstanding concessionary loans are reported at fair value in compliance with IPSAS provisions.**

4. Budget implementation

Underutilization of annual allocated funds

22. The Board noted from country visits³ and evaluation reports that there were budget under-utilization ranging from five to 67 per cent of the allotted budgets for the year 2014. Table 2 below provides further analysis of the noted budget under -utilization in absolute and percentages.

Table 2: Projects budget utilization for 2014

Description	Egypt	Iraq	Myanmar ⁴	Pakistan	Palestine	Sri-Lanka
Total number of projects	9	7	10	16	12	8
Budget (\$)	17,928,971	13,210,212	8,693,722	4,063,219	11,742,267	23,539,548
Actual expenditure (\$)	11,773,410	10,120,625	8,291,021	3,831,890	4,272,037	18,179,961
Un-utilized (\$)	6,155,561	3,089,586.13	402,701	231,329	8,470,230	8,470,230
Budget un-utilized per cent	34	23	5	6	66	23

Source: UN-Habitat projects allotments report for 2014

³ The Board visited Egypt, Iraq, Myanmar, Pakistan, Palestine and Sri - Lanka

⁴ Revised budget for Myanmar as at 31 Dec 2014

23. UN Habitat attributed the budget under-utilization to political instability in Iraq, Palestine and Sri-Lanka as well as long procedures and process for recruitment of experts required for the projects in Egypt.

24. The Board acknowledges the challenges faced by UN-Habitat but it is of the view that running the projects without the required expertise from the start retarded the progress of the projects. As the recruitment process is within the purview of management there was a possibility of determining risks that could impact the projects and ways of managing them well in advance of the start of projects. As a result of delays, the large underutilization of the allocated funds will result in substantial delay of realization of the projects' intended benefits. UN-Habitat needs robust arrangements to expedite recruitment of the required experts for implementation of the projects in Egypt.

25. **The Board recommends UN-Habitat (a) determine the risks that might affect projects implementation in advance of the execution phase to minimise the negative consequential effects of delaying the intended benefits to the societies involved; and (b) plan and manage the recruitment process of experts in the field office to ensure there is timely and adequate staffing for improved projects performance.**

5. Programme and Project Management

26. The Board conducted a review of the programmes and project management at UN-Habitat in order to obtain an assurance as to whether the funds disbursed to Implementing Partners (IPs) as well as to the various programmes and projects are used for the purpose intended, the risk of fraud and error is minimized and that the funds delivers the desired outcomes in a cost effective manner. However, the Board found the following discrepancies:

Delays in completion of projects

27. The Board found a delayed completion of projects ranging between three to 14 months at the UN-Habitat Egypt Programme Office as detailed in Table 3 below:

Table 3: Delays in completion of projects

S/N	Project name	Value in \$	Start date	Planned date of completion	Actual project completion date	Delays in months
1	Strategic Development in Greater Cairo Region	3,590,000	01 Aug 2008	31 Dec 2014	31 March 2015	3 months
2	Public Spaces and the Right to the City - Greater Cairo Region, Egypt	105,000	01 Feb 2013	31 Jan 2014	31 March 2015	14 months
3	Integrative Neighbourhood Development in Refugee Hosting Area, Faisal, Cairo	54,118	22 Jan 2014	30 April 2014	31 Dec 2014	8 months
Total		3,749,118				

Source: Egypt Programme Office projects implementation documents

28. The Board inquired the reasons for the slow pace of budget implementation and UN-Habitat attributed the delays to inadequate support from the society, non-approval of cooperation agreements from related governing bodies and delays caused by long procurement processes of project materials.

29. While the Board recognises UN-Habitat's reasons for the delays, it is of the view that the slow pace in completion of the projects will increase project costs and will cause delay of the desired outcomes expected from the projects.

30. The Board recommends that UN-Habitat ensures the Egypt Country office (a) sensitize the community about the benefits in order to obtain the desired support from the stakeholders; and (b) plan for procurements of materials in advance of projects execution phase to facilitate achievement of the milestones within the set timeframe.

Delays in processing payments for Community Implementation Agreements

31. The Board noted that the Myanmar country programme issued a directive which set out a maximum duration of 35 days for each unit under its jurisdiction to process payments relating to projects under community implementation agreements. This directive was intended to smoothen the

implementation process by avoiding undue funding delays. However, the Board noted that this directive was not adhered to as the payment records showed delays ranging from 13 to 41 days beyond the mandatory 35 days.

32. UN-Habitat attributed the delays to the long processing time by programme offices and the late approval of community implementation agreements by the authorities involved. Further, UN-Habitat explained that the country programme office has agreed with UNDP who are involved in the authorization procedures to assign a dedicated person to deal with the UN-Habitat payments.

33. While the Board acknowledges the reasons stated by UN-Habitat it is of the view that the delays in processing payments for the community implementation agreements have consequential impact on the completion of the project's activities and failure to deliver the intended benefits to the communities in a timely manner.

34. **The Board recommends UN-Habitat streamline the payment processes and monitor the implementation to ensure adherence to its deadline of 35 days.**

6. Result Based Management

Project Annual Work Plans lacking performance indicators, targets and baseline data

35. The General Assembly Resolution A/RES/64/259 dated May 5, 2010 requested the Secretary-General to take the necessary measures to accelerate the implementation of Result-Based Management (RBM) in the United Nations Organization.

36. The Board found that seven projects annual work plans⁵ at Egypt Programme Office did not have the required three components of RBM namely performance indicators, targets and baseline data.

⁵ The Board reviewed annual work plans of nine projects, with a total cumulative budget of \$23.73 million for the period from 2008 to 2014

Table 4: Projects with annual work plans which lack performance indicators, targets and baselines.

SN	Project Code	Project Name
1.	C187	Strategic Urban Plans for Small Cities in Egypt
2.	C226	Strategic Development in Greater Cairo Region
3.	C243	Strategic National Development Support Project - Egypt
4.	C347	Public Spaces and the Right to the City - Greater Cairo Region, Egypt
5.	C359	Human Security through Inclusive Socio-economic Development in Upper Egypt
6.	C346	XBEGYA1002: Safer Cities free of violence against women and girls, Greater Cairo region, Egypt (BIAG UP)
7.	C375	Integrative Neighbourhood Development in Refugee Hosting Area, Faisal, Cairo

Source: Egypt Programme Project Annual Work Plan for year 2014

37. Also, it was found that UN-Habitat has not formalised RBM policy and manual that provide guidance on how to implement RBM. The Board is of the view that without clear guidance and the necessary RBM components, UN-Habitat cannot make any meaningful assessment of its results achievements because of the lack of clear benchmarks.

38. UN-Habitat explained that RBM is not used in all projects, although all projects have a log frame with indicators and targets and are related to the work plans by reference to the activity number.

39. Despite UN-Habitat explanations, the Board found that the seven audited projects had started using the draft RBM and it is of the view that performance indicators for actual performance of the planned are preferred to log frame indicators which shows performance for the whole project lifetime.

40. The Board recommends that UN-Habitat ensure the assessment of its achievements is more meaningful by collaborating with the Egypt Programme Office to ensure the annual work plans are aligned with performance indicators, targets and baseline data.

7. Assets management

Assets lacking electronic barcodes

41. UN-Habitat project manual, 2010 (Paragraph 41(c), Chapter 4) requires any item of property that has been located but was not previously barcoded or recorded in the inventory control system to be coded and recorded during the physical inventory process.

42. The Board noted from six country programmes visited that of 2,375 assets reviewed 1,091 assets costing \$1.4 million acquired between 2006 and 2014 had no barcode labels. For instance, in two country offices regular paper labels were used instead of the engineered barcodes and were not aligning to the HardCat system for asset registration and appropriate accounting. UN-Habitat explained that they will consult United Nations Office in Nairobi (UNON) to ensure the barcode labels are assigned to all assets.

43. Although the Board did not find losses of assets, it is of the view that the absence of soft barcodes and the inability of linking the information to the HardCat system exposes UN-Habitat to the risk of misstating the Property, Plant and Equipment (PPE) balance and possible loss of assets without early detection.

44. **UN-Habitat agreed with the Board's recommendation to consider a possibility of speeding up the process fixing electronic barcodes on all assets under its control in order to ensure the completeness of the PPE register.**

C. Disclosures by management

45. UN-Habitat made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud which, in our view, are not significant.

1. Write-off of cash, receivables and property

46. UN-Habitat informed the Board that, in accordance with financial rule 106.8, losses of cash and receivables amounting to \$80,893.58 was written off during the year 2014.

2. Ex gratia payments

47. There were no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

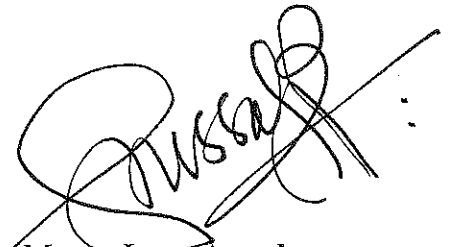
48. In accordance with International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

49. During the audit, the Board makes enquiries of management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to their attention. We also inquire whether management have any knowledge of any actual, suspected or alleged fraud, and this includes enquiries of the Office of Internal Oversight. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

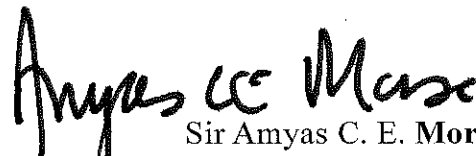
50. In 2014 the Board did not identify any cases of fraud and presumptive fraud, other than one case of fraud with no direct financial loss, which has been reported to the Board by UN-Habitat and adequately disclosed in the notes to the financial statements.

D. Acknowledgement

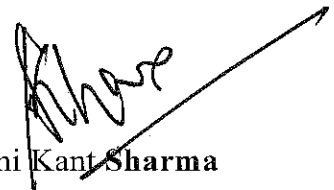
51. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff members of the United Nations Human Settlements Programme.



Mussa Juma Assad
Controller and Auditor General of the
United Republic of Tanzania
Chair of the United Nations Board of Auditors
(Lead Auditor)



Sir Amyas C. E. Morse
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland



Shashi Kant Sharma
Comptroller and Auditor-General of India

30 June 2015

Annex I:**Status of implementation of recommendations for the year ended 31 December 2013**

No.	Financial period in which first made and reference	Recommendations	Action Reported by the Management	Board's Assessment	Status After Verification			
					Implemented	Under Implementation	Not Implemented	Overtaken by events
1.	A/69/5/Add.9 Chapter II Para 22 of 2012/2013	UN-Habitat agreed with the Board's recommendation that it implement activities to prioritize and expedite the process of data cleansing so that IPSAS opening balances are finalized well in advance for the preparation of dry-run financial statements.	Data cleansing for IPSAS opening balances were completed in coordination with UNON.	The audit team verified the IPSAS opening balances and the recommendation is regarded as implemented	X			

2.	A/69/5/Add.9 Chapter II Para 25 of 2012/2013	UN-Habitat agreed with the Board's recommendation that in advance of its next strategic plan for 2014-2019, it develop a results-based management policy, with a clear implementation manual that provides procedures for performance monitoring, evaluation and reporting.	UN-Habitat has been effectively implementing results-based management since 2008 and has made significant strides as acknowledged by its Governing Council through its resolution 24/15 of 2013 when it requested the Executive Director "to maintain his current emphasis on results for the achievement of programme objectives..." UN-Habitat has drafted and completed the internal review of an RBM policy and a manual. The policy is scheduled for final approval by the senior management by 15 May 2015.	In light of the management reply, the recommendation is considered implemented	X		
3.	A/69/5/Add.9 Chapter II Para 29 of 2012/2013	UN-Habitat agreed with the Board's recommendation that it improve its monitoring of project budget implementation by (a) establishing adequate authorization controls over the use of project funds for proper redeployments; and (b) maintaining liaison with United Nations Headquarters to address the budgetary control gaps in IMIS.	(a) UN-Habitat, in coordination with UNON, enhanced controls over funds sufficiency to deal with the reported weakness. See attached Annex 1 for a sample of the temporary manual control until implementation of a permanent automated control through Umoja (b) With the imminent deployment of Umoja, the newly developed procedures will adequately compensate for the budgetary control gaps in IMIS	Under implementation	X		

4.	A/69/5/Add.9 Chapter II Para 34 of 2012/2013	UN-Habitat agreed with the Board's recommendation that it (a) follow up with the United Nations agencies for timely submission of the inter-organizational vouchers; and (b) clear all the outstanding unliquidated obligations after the end of the period in which they were created.	UN-Habitat cleared all prior year unliquidated obligations as part of the preparation for the Umoja implementation and IPSAS opening balances validation process.	Implemented	X		
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5.	A/69/5/Add.9 Chapter II Para 39 of 2012/2013	UN-Habitat agreed with the Board's recommendation that it (a) set a timeline to implement the resolution of its Governing Council in identifying a suitable partner to run the Experimental Reimbursable Seeding Operations Trust Fund and draw up comprehensive terms of reference for adequate operations and risk management; (b) set up and document a clear monitoring and assurance framework for the use and accountability of Experimental Reimbursable Seeding Operations funds; and (c) closely follow up the repayment from each borrower and ensure they adhere to the repayment schedule.	(a) UN-Habitat updated its Committee of Permanent Representatives on 23 November 2012 on the status of the implementation of its Governing Council's resolution 23/10 that it had been unable to find a suitable partner or structure to transfer the Experimental Reimbursable Seeding Operations portfolio to. As a result, and also considering the small size of the portfolio, UN-Habitat will administer the operation of the portfolio in-house. (b) As part of this process, UN-Habitat undertook field missions in February-March 2015 to conduct surveys of individual beneficiaries of ERSO funded projects in Nepal, Nicaragua and Uganda to ascertain whether individual loans have been used by end-users for intended purposes of respective projects. The results gathered were satisfactory and demonstrate that the funds were being used for the intended purposes. One last mission to the Occupied Palestine Territories is now due to take place in May 2015. See attached mission reports (c) UN-Habitat	Under implementation		X		
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			<p>has also closely monitored the loan repayment, which has been on schedule with no defaults so far. UN-Habitat will provide an update on the findings of the surveys of the project beneficiaries and the status of the loan repayment to UNBOA in April 2015.</p>					
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6.	A/69/5/Add.9 Chapter II Para 42 of 2012/2013	UN-Habitat agreed with the Board's recommendation that it comply with the United Nations Procurement Manual and that it use a competitive procurement process wherever possible. Where UN-Habitat has to use the ex post facto process, the reasons for doing so should be documented and approval secured from the local committee on contracts.	UN-Habitat, in conjunction with UNON, established a process to monitor and clear any procurement exception. See Attached Annex 2	In light of the management reply, the recommendation is considered implemented	X			
7.	A/69/5/Add.9 Chapter II 46 of 2012/2013	UN-Habitat agreed with the Board's recommendation that it (a) monitor all United Nations at Nairobi contract management activities where it is a main beneficiary by ensuring, where appropriate, that competitive bidding procedures are used before awarding any consultancy contracts; and (b) enforce the registration requirement for all selected consultants.	UN-Habitat, with assistance from UNON, is issuing all procurement contracts in compliance with applicable rules and regulations. UN-Habitat, through UNON, is also ensuring proper registration of selected vendors.	In light of the management reply, the recommendation is considered implemented	X			

8.	A/69/5/Add.9 Chapter II 50 of 2012/2013	UN-Habitat agreed with the Board's recommendation that it introduce cost-effective mitigation procedures such as opening official bank accounts and including penalty/recovery clauses in the contracts with team leaders	UN-Habitat Sudan Office has converted the type of contracts for three staff members from Service Contract to Fixed Terms, all the relevant advances have been provided to FT contract holders, including the Head of Country Programme (P5), in addition the office makes sure that advances are accumulated to a single staff member; where he or she is required to liquidate the first advance before being given a second one. See annex 3 for the staff contracts	Implemented	X			
9.	(A/67/5/Add.8, chap. II para.24 of 2010-2011	Review the costs and benefits of introducing procedures to mitigate exchange rate risks and losses. In coordination with the United Nations Office at Nairobi, and subject to guidance from United Nations Headquarters, this could include commercially available solutions	UN-Habitat treasury is administered by the United Nations Office at Nairobi, under the guidance of the United Nations Department of Management in New York. The implementation of this recommendation is beyond the authority of UN-Habitat.	The Board reiterates its recommendation.			X	

10.	(A/67/5/Add.8, chap. II para.36 of 2010-2011	Set up specific arrangements to fund its liabilities for end-of-service and post-retirement benefits, for consideration and approval by its Governing Council and the General Assembly	UN-Habitat has sought and waiting for guidance from United Nations Headquarters and, depending upon the advice received, may seek relevant authorization of the General Assembly and its Governing Council.	Under implementation		X		
11.	(A/67/5/Add.8, chap. II para.39 of 2010-2011	UN-Habitat and the United Nations Office at Nairobi investigate all unsupported balances within its ledgers and take steps to cleanse the ledgers of these balances through appropriate write-offs	UN-Habitat, with assistance from the United Nations Office at Nairobi, has completed the review and made necessary adjustments in the ledgers.	In light of the management reply, the recommendation is considered implemented	X			
12.	(A/67/5/Add.8, chap. II para.45 of 2010-2011	Establish a simple organization-wide risk management approach, building on its initial work and existing reporting arrangements, and aligned with recent United Nations Headquarters developments during 2012	Since the recommendation was issued, UN-Habitat has taken several steps and made significant improvements in establishing ERM. These steps include : (1) an ERM consultant contracted to assist with the implementation of the ERM for TOR and for report (2) established ERM implementation guidelines (3) Conducted top critical risk assessment and implemented risk assessment template embedded in project document.	In light of the management reply, the recommendation is considered implemented	X			

13.	(A/67/5/Add.8, chap. II para.69 of 2010-2011)	(a) Verify that evidence to support reported performance is robust; and (b) given the number of activities that support its reported performance, consider adopting a sample-based verification process	<p>A system was put in place 2013 to support UN-Habitat's documentation of evidence on its reported programme performance. Using the results framework for the 2008-2013 strategic plan, evidence on performance was collected on reported progress on indicators for focus areas. This information is on K Drive and accessible to all staff directly: K:\Office of Management\Quality Assurance Unit\Work Programme 2012-2013\Evidence for Programme Performance - 2012-2013</p> <p>Significant progress has been made in strengthening the evidence to support UN-Habitat's programme performance reporting for the new strategic plan 2014-2019.</p> <p>In addition to the results framework, a performance measurement plan was developed with baselines, targets through which the baseline information has been captured for all indicators.</p> <p>As the strategic plan is aligned with the biennial work programme, the baseline information has been fully captured in IMDIS under indicator</p>	In light of the management reply, the recommendation is considered implemented	X		
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			<p>methodology. Updates on the actual names of indicator data is captured in the IMDIS. Using the programme performance data for 2014 (which is the first year of implementation of the new strategy); we are currently collecting the evidence for all indicators as well as outputs which will be tracked over the six year period. The system is accessible to managers and RBM focal points for update through the: K:\Office of Management\Quality Assurance Unit\Work programme 2014-2015\Evidence for Programme Performance - 2014-2015</p> <p>As part of strengthening our programme performance self-assessment, our annual reports now include success stories and video documentaries that capture the voices of the beneficiaries from field projects. The videos are accessible through the YouTube as well as through UN-Habitat websites.</p>				
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14.	(A/67/5/Add.8, chap. II para.77 of 2010-2011)	Senior Management Committee regularly review, at least every six months, performance and progress against the biennial work programme and budget, documenting its review and the actions to be taken	Senior management Programme performance review meetings are regularly held to assess the overall delivery of the biennial work programme and budget as well as the implementation of the medium-term strategic plan. These meetings are also the clearing house of all programme performance reports before they are submitted to the CPR and the donors. The meetings are attended by all members of the senior management team who include the Office of the Executive Director, Deputy Executive Director, Branch Coordinators, Regional Office Directors and Unit heads. The meeting is facilitated by the Quality Assurance Unit who prepares the programme performance analysis and present to senior management for discussion. The review covers: Key achievements in terms of the highlights of the results achieved during the six or twelve months; Progress towards meeting indicator targets Status in the delivery of planned outputs Major challenges and risks and required actions Lessons learned	Implemented	X			
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Total	15		11	3	1	0
Percentages	100		73	20	7	0