

TERMS OF REFERENCE

SHORT TITLE OF ASSIGNMENT

HACT Capacity assessment and Assurance Activities

BACKGROUND

UNICEF, UNFPA, UNDP and FAO¹ (UN Agencies) have adopted the 2014 revised undg Harmonized Approach to Cash Transfers (HACT) as a tool to ensure that funds transferred to partners are utilized as intended. Within the HACT framework there are the following four processes: (1) capacity assessments (macro assessment and micro assessment); (2) cash transfers and disbursements; (3) assurance activities; and (4) financial management capacity development.

UNICEF, UNFPA, UNDP and FAO have adopted the undg HACT framework in 2005 pursuant to United Nations General Assembly Resolution 56/201 on the triennial policy review of operational activities for development of the United Nations system. The framework was updated in 2014. The HACT framework represents a common operational (harmonized) framework for transferring cash to government and non-governmental IPs, irrespective of whether these partners work with one or multiple United Nations agencies. The objective of the HACT framework is to support a closer alignment of development aid with national priorities and to strengthen national capacities for management and accountability, with the ultimate objective of gradually shifting to national systems. It is understood that 'harmonized' in the context of the HACT framework refers to agencies implementing a common operational framework using the same, consistent, standardized approach and tools.

HACT micro assessments are not the only assessment, nor the only selection criteria for selecting implementing partners, and that additional reviews; such as Core Value Screening by UNICEF is being performed to inform the final choice of IP in each case. Such other reviews are currently outside the scope of this HACT tender.

While selection of government partners is based on the mandate and responsibilities of government entities, the process for identifying CSO is provided in the following link:
https://www.unicef.org/about/partnerships/index_60037.html

Key guiding principles for UNICEF partnerships with civil society and other actors are outlined in the following link:
https://www.unicef.org/about/partnerships/index_60074.html

The HACT framework represents a shift from assurance for cash transfers derived from project level controls and audits towards a method of assurance derived from risk/system-based assessments and audits.

Implementing partner (IP) is the entity responsible and accountable for ensuring proper use of UN Agency provided resources and implementation and management of the intended programme as defined in the work plan or the programme document. Implementing partners is a:

- Government partner, including ministries, semi-autonomous entities, local government;
- Intergovernmental organization; or

Civil Society Organization (CSO) partner, including national and international NGOs, academic institutions, community-based organizations and foundation

OBJECTIVE / SCOPE OF WORK

The purpose of this Request for Proposal for Services (RFPs) is to identify service provider(s) to provide professional assessment, assurance and advisory services. Contracts for specific services would then be enacted by the Iran UN Agency(ies) country offices at the LTA-specified unit costs and other conditions.

The scope of work required and specific deliverables are described in the Terms of Reference attached in

¹ In the case of FAO, please refer to the terminology in Appendix E

Annex 1, and its appendices:

- a. Appendix I: Terms of Reference for Micro Assessment
- b. Appendix II: UNCIEF Spot Check Guidance
- c. Appendix III: UNFPA Spot Check Guidance
- d. Appendix IV: Terms of Reference for HACT Audit
- e. Appendix V: Terms of Reference for Special Audit
- a. calendar year from HACT compliant agencies. Micro assessments are valid for 5 years, unless the office determines the need to reassess the implementing partner.

DESCRIPTION OF THE ASSIGNMENT

1. Micro Assessment

The micro assessment assesses the IP's financial management capacity (i.e. accounting, procurement, reporting, internal controls, etc.) to determine the overall financial risk rating and assurance activities. The risk rating, along with other available information, is also taken into consideration when selecting the appropriate cash transfer modality for a selected IP, based on each agency's business model. This assessment applies to both governmental and non-governmental IPs.

The two primary outputs of the micro assessment are:

- (a) An overall financial risk rating related to cash transfers to IPs (low, moderate, significant or high); and
- (b) The appropriate type and frequency of assurance activities and cash transfer modality based on each agency's business models.

The micro assessment is viewed as a component of the standard overall assessment of an IP, in addition to other available sources of information (e.g. core value assessment, history of engagement with the agency, previous audit reports, etc.) and results from the macro assessment (or the absence of information regarding the PFM environment and capacity of the SAI if no macro assessment exist).

The micro assessments scope may be revisited over time, and in such case additional information/offers would be requested via appropriate process as relevant.

2. Assurance Activities

The purpose of assurance activities is to determine whether the funds transferred to IPs were used for their intended purpose and in accordance with the work plan or programme document.

The components of financial assurance activities are briefly described as:

- a. **Spot checks:** a review of financial records related to the management of the partnership with UNICEF. Spot checks are performed in the office of implementing partners. Spot checks are not audits therefore the extent of expense testing is generally lower than what would be undertaken during an audit.
- b. **HACT audit:** a systematic and independent examination of data, statements, records, operations and performance of an implementing partner carried out by an external service provider. The overall objective of the audit is to provide the UN agency(ies) with a reasonable assurance on the appropriate use of funds provided to the Partner in accordance with the reporting requirements of the UN agency(ies), the IP agreement(s), programme document, work plan(s) and budgets.
- c. **Special audit:** an audit performed when significant issues and concerns are identified during the programme cycle, often the result of findings of programmatic visits and spot checks.

3. Capacity Development

Financial management capacity development is an action undertaken to address weaknesses of implementing partners' financial management capabilities thereby supporting medium and long-term sustainability of programme results. It may include follow-up on findings and recommendations from assurance activities and capacity assessment or specific control weaknesses as identified by the UN Agency(ies).

ACTIVITIES, DELIVERABLES, TIMELINES AND PAYMENTS

Deliverables

Specific service / outputs to be delivered for each service are detailed in the relevant TORs in the Appendices.

For *Capacity Development* and *Other Related Advisory Services* the UN Agency issuing a contract will define the procedures required and reporting requirement at the time of requesting the service.

Reporting Requirements

The relevant ToRs in the Appendices include sample report templates. These templates are to be used by the service provider in all countries where work is being undertaken through this LTA.

Reporting formats for the *Capacity Development* and *Other Related Advisory Services* will be agreed upon the service provider and the UN Agency prior to issuing the contract.

Draft reports are shared with the UN Agency(ies) office and the implementing partner. Final reports are to be issued by the service provider directly to the UN Agency (ies). The UN Agency(ies) will share the final report(s) with the implementing partner and other UN agencies. The service provider will not share any deliverable to any other party, including donors providing funding for the specific project or programme.

Any indication included in any deliverable restricting its distribution and/or use will be null and void.

Reports are to be provided in Word or Excel format, as appropriate (or as may be further specified in the specific terms of reference). Where the service provider's internal policies require the final signed version to be provided only in PDF, the UN Agency will accept the PDF version accompanied by a Word/Excel version with same content but without signature and/or branding (as per service provider's internal policies).

The service provider is required to enter the reports into the agency's data system upon request by the UN Agency.

N.B. All reports and questionnaires must be submitted in English

Location and Duration

UNICEF intends to enter a Long-Term Arrangement for Services (LTA-S) with the successful Bidder(s) for the provision of an indefinite quantity of the specified services. In the event of UNICEF signing LTA-S, the following shall apply:

- a) The LTA-S shall be valid for 1 years from the date were both parties have signed the agreement with an option for further extension of a 2 years period subject to satisfactory performance of the service providers and at UN Agency/ies sole direction and availability of fund.
- b) The LTA-S shall be based awarded per category (service item) in Iran.
- c) The UN Agencies will not be committed to purchase any minimum quantity of the services, and purchases will be made only if and when there is an actual requirement. The UN Agencies will not be liable for any cost in the event that no purchases are made under any resulting LTA-S.

Contract(s) for services will be issued under the LTA-S by UN Agency(ies) Country Offices.

It is anticipated that the work will take place in Iran, and may be located either in Tehran, or at provincial, district or other sub-national level, unless agreed otherwise with the office issuing the contract.

Payment Schedule

The milestones/deliverables must be determined by each CO and the service provider and will be part of each contract issued to the LTA-S holder. The service provider will prepare final invoice when the service is completed and the final report for the service requested is issued. In the case of UN Agency office requesting multiple services at the same time, the LTA-S holder is permitted to prepare periodic billing. The LTA-S holder is permitted to prepare invoices for 80% of the price of the service at the time of issuance of the draft report for the respective service. Final invoice for the remaining 20% will be prepared at the time of the issuance of the final report.

For late delivery of services or for services which do not meet UN Agency(ies)' specifications/requirements and are therefore rejected by the UN Agency shall be entitled to claim liquidated damages from the successful proposer, and deduct 0.5% of the value of the services pursuant to Institutional/Corporate Contract per additional day of delay, up to a maximum of 10% of the value of the Institutional/ Corporate Contract. The payment or deduction of such liquidated damages shall not relieve the successful proposer from any of its other obligations or liabilities pursuant to any Institutional/Corporate Contract.

QUALIFICATIONS, SPECIALIZED EXPERIENCE AND ADDITIONAL COMPETENCIES

The qualification requirements for the assignment including required experience, skills and qualifications; if applicable, are detailed in the individual TORs attached as Appendices for each specific service.

The service provider must possess the personnel, experience, qualifications, facilities, financial resources and all other skills and resources to perform their obligations under any resulting agreement.

CONDITIONS OF WORK

Administrative issues

Services are required throughout the year and as scheduled by each UN Agency office. UNFPA HACT audits are required to be submitted by 30 April of each year following the year under review. The service provider will plan accordingly and ensure resources are available to meet office needs as required.

In specific situations, such as large number of specific services required, the UN Agency(ies) may request secondary bid / quotation for the identified list of services from the qualified service providers.

All prices/rates quoted must in Iranian Rials exclusive of all taxes as UNICEF /UNFPA are tax-exempt organization. The UN Agency(ies) will not provide resources and facilities to the contractor such as office space, computer and printers, visas and travel arrangements and security to the staff members of the service providers etc.

All prices are inclusive of travel cost if the service requested is in a capital or major city. Major cities are defined as cities where the UN Agency and the service provider have established a permanent office. If travel is required, the UN Agency and the service provider will agree upon the travel costs prior to signing the contract for the services requested. The travel cost shall be calculated based on economy class travel, and costs for accommodation, meals and incidentals shall be in accordance with the service provider policies and cannot exceed applicable daily subsistence allowance (DSA) rates, as promulgated by the International Civil Service Commission (ICSC). Unexpected travels shall also be treated as above.

Project management

The successful service provider for this LTA should assign a Coordinator appointed by the firm. The Coordinator will be a senior partner appointed by the firm who will be responsible to ensure that there are mechanisms in place for standardization and quality assurance of all service delivery to the UN Agency(ies), including training of all personnel, affiliates and review of all reports. All issues with quality or timely service delivery are to be addressed by the Coordinator. The UN Agencies Country Offices will interact with the Coordinator.

The Country Coordinator will coordinate with the UN Agency's office requesting a service and be responsible for carrying out planning, execution and reporting. The contact details (name, job title, mobile telephone number and email) of Coordinator should be provided as part of the technical proposal. All correspondence to the Global/Regional Coordinator shall be responded to within 24 – 48 hours.

Other information

In cases, where the UN Agency requests a service provider to undertake different type of services on a specific partner, the service provider is expected to ensure there is no conflict of interest in the provision of those services.

In the delivery of any services under this LTA, cases which indicate fraud or presumptive fraud will be brought to the immediate attention of the designated person in each UN Agency's office without waiting for the issuance of the audit report.

The service provider is to maintain working papers supporting audit work at its premises for five years. The UN Agency(ies) shall on request have access to the working paper documentation. At the request of the UN Agency(ies), the service provider is to brief subsequent service providers on the details of the results of any work carried out under this LTA.

Any staff of the service provider providing services to UNICEF/UNFPA/UNDP/FAO is required to review UNDG HACT Framework, FAO as well as UNICEF/UNFPA/UNDP HACT related policies and procedures (provided upon contract award) and other pertinent background material in order to provide quality services to the UN Agencies.

Successful Bidders will maintain separate reporting and communication lines with UNICEF and UNFPA (and another other UN agency who may avail of any LTA established as a result of this RFP).

The UN agencies shall be bound by the provisions of this LTA in respect of each other only to the extent that each UN agency has actually placed, and the LTA holder (s) has accepted, any Purchase Orders in accordance with this LTA, and the placing of any Purchase Orders by each UN agency shall not under any circumstance render each UN agency jointly and severally liable with other organization of UN for the obligations of another UN agency arising out of or in connection with this LTA.

CRITERIA FOR EVALUATION

Following the closure of RFP, proposals received will be assessed first on its technical merits (including by reference to legal requirements) and subsequently on its price.

The proposals will be evaluated technically against the elements under appendix A.

Appendix I: Terms of Reference (ToR) for Micro Assessment

This TOR has been developed to guide United Nations agencies (UN agencies), third party service providers and implementing partners (IPs) through the objectives, scope, logistics and deliverables of performing micro assessments.

Objective and scope of the micro assessment

The micro assessment is performed by a third party service provider and includes a site visit to the IP. The assessment primarily consists of interviews with IP personnel and a review of relevant documentation sufficient to complete the micro assessment questionnaire (Annex 2). The questionnaire provides an overall risk rating based on responses provided:

- **Low risk** – Indicates a well-developed financial management system and functioning control framework with a low likelihood of negative impact on the IP's ability to execute the programme in accordance with the work plan.
- **Moderate² Risk** – Indicates a developed financial management system and control framework with moderate likelihood of potential negative impact on the IP's ability to execute the programme in accordance with the work plan.
- **Significant Risk** – Indicates an underdeveloped financial management system or control framework with a significant likelihood of potential negative impact on the IP's ability to execute the programme in accordance with the work plan. Thinking we should just merge significant and high risk as HIGH RISK
- **High Risk** – Indicates an underdeveloped financial management system and control framework with a high likelihood of potential negative impact on the IP's ability to execute the programme in accordance with the work plan.

The overall risk rating is used by the UN agencies, along with other available information (e.g. history of engagement with the agency and previous assurance results), to determine the type and frequency of assurance activities as per each agency's guidelines and can be taken into consideration when selecting the appropriate cash transfer modality for an IP, based on each agency's business model (further detailed in section 8).

Logistics

The assessment should be completed (including the site visit and report issuance) within four weeks of engaging the third party service provider. The UN agency/ies' HACT focal point and/or inter-agency coordinator will introduce the service provider to the IP and facilitate the site visit.

The UN agency/ies provide the following documentation to the service provider for review before starting fieldwork:

- Copy of the latest macro assessments performed for the country;
- UN agency/ies' work plan(s) and programme documents with the IP

² Throughout agencies' policies and systems, "moderate" and "medium" may be used interchangeably to describe the risk rating between low and significant".

- Copies of reports of any micro assessments or other relevant assessment previously performed on the IP e.g. review of the IPs or Country's Public Procurement System to determine its compatibility with the UN's Procurement Rules and Regulations
- Copies of reports of any financial or internal control audits and spot checks previously performed on the IP; and
- IP and Programme information as per Annex 1
- Any other documentation that may help the service provider better understand the context from a United Nations perspective.

Procedures and deliverables

The third party service provider receives general information regarding the IP and the programme from the UN agency/ies' HACT focal point and/or the inter-agency coordinator in preparation for the assessment (see Annex 1 and Items to be provided above). The service provider reviews this documentation in advance of performing a site visit to the IP. The service provider should also provide the IP with an advance request of the documents and interviews they would like to have while on site, to ensure efficient use of time while on-site.

The third party service provider also completes the micro assessment questionnaire (Annex 2, with instructions) based on the procedures performed during the assessment period. The service provider discusses the results of the questionnaire with relevant IP personnel and the UN agency/ies' HACT focal point before finalizing it. Upon finalization, the service provider delivers an executive summary, detailing the overall risk rating and specific identified risks, and the completed questionnaire.

The micro assessment report is to be delivered in the format given in Annex 3.

Qualifications of the third party service provider

The third party service provider must be experienced in performing assessments similar to a micro assessment and assessing risks related to organizational financial management capacity (i.e. accounting, reporting, procurement and internal controls). The service provider must also have knowledge of the United Nations system and the development sector.

CVs of all members of the assessment team should be provided to the commissioning UN agency/ies and should include details on engagements carried out by relevant staff, including ongoing assignments indicating responsibilities assumed by them and their qualifications and experience in undertaking similar assessments.

Annex 1. IP and Programme Information

The following information should be completed at the start of the micro assessment and annexed to the report as per the format in Annex 3.

Implementing partner name:	
Implementing partner code or ID in UNICEF, UNDP, UNFPA records (as applicable)	
Implementing partner contact details (contact name, email address and telephone number):	
Main programmes implemented with the applicable UN Agency/ies:	
Key Official in charge of the UN Agency/ies' programme(s):	
Programme location(s):	
Location of records related to the UN Agency/ies' programme(s):	
Currency of records maintained:	
Latest expenditures incurred/reported to UNICEF, UNDP and UNFPA (as applicable). Indicate the amount (in US\$) and the financial reporting period ;	
Current or latest cash transfer modality/ies used by the UN agency/ies to the IP	
Intended start date of micro assessment:	
Number of days to be spent for visit to IP:	
Any special requests to be considered during the micro assessment:	

Annex 2: Micro Assessment Questionnaire

Please see separately provided excel format for the questionnaire with calculation formulas included, which has to be used. The excel file can also be found at www.undg.org/.

Instructions

This questionnaire contains questions related to seven subject areas. Certain questions are classified as “key questions” indicating that they have a greater impact in assessing the effective functioning of the IP’s control framework.

1. Answer each question by selecting ‘Yes’, ‘No’ or ‘N/A’ (for ‘not applicable’) from the drop down menu in the appropriate column.
2. Use the Risk Assessment column to assign a risk rating (high, significant, moderate or low) for each question based on the response obtained. For example, if the question addresses an item that should ideally be marked ‘Yes’ but was marked ‘No’, it should be assessed for the level of risk it presents to the effective functioning of the IP’s control framework. Assigning risk ratings to each question requires judgment by the assessor as to how the response will impact the effectiveness of the IP’s control framework. **Attention: THE APPROPRIATE RISK ASSESSMENT OR “NOT APPLICABLE” MUST BE SELECTED FOR EACH QUESTION. IF THERE ARE QUESTIONS CONTAINING “ERROR” THE RISK RATING FOR THE CATEGORY AND OVERALL WILL BE WRONGLY CALCULATED!**
3. The risk ratings to be used are:
 - **High** – Response to question indicates a risk to the effective functioning of the IP’s control framework that has a high likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives;
 - **Significant** – Response to question indicates a risk to the effective functioning of the IP’s control framework that has a significant likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives;
 - **Moderate** – Response to question indicates a risk to the effective functioning of the IP’s control framework that has a moderate likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives; or
 - **Low** – Response to question indicates a low risk to the effective functioning of the IP’s control framework and a low likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives.
 - **N/A** – *The specific question is not applicable for the IP and therefore no risk rating is assigned.*
4. The Risk Points column automatically assign points to each question that correlate with the level of risk.
5. Points are assigned as follows:

Risk rating	Points: non-key questions	Points: key questions
H – High risk	4 points	8 points
S – Significant risk	3 points	6 points
M – Moderate risk	2 points	4 points
L – Low risk	1 point	1 point

6. Use the 'Remarks/ comments' column next to each question to provide details of your assessment or to highlight any important matters. This document will be referenced subsequently by the agency when performing additional assurance activities related to the IP. Sufficient details should be provided in this document for the agency to understand the details and rationale for your assessment.

Calculation of risk rating per subject area section

For each subject area, the risk points are totaled and divided by the number of applicable questions in that area, to give a risk rating for the subject area. The method of calculation is weighted average, where key questions have double the weight of non-key questions as illustrated in Note 1.

Calculation of overall risk rating

For all the questions in the questionnaire, the risk points are totaled and divided by the number of applicable questions, to give an overall average score. The method of calculation is weighted average, where key questions have double the weight of non-key questions as illustrated in Note 1.

Note 1 – Method of assigning risk ratings to risk scores

As per paragraph 5, key questions are assigned double the risk points, resulting in a weighted average method for calculating the overall and by subject area risk rating. Therefore, the risk rating assigned to the key questions have twice the weight in determining the risk rating.

Assume the following two scenarios with the same risk rating for the questions.

1. Scenario 1: There are three non-key questions having equal weight
2. Scenario 2: The first question is key and the remaining two questions are non-key.

Scenario 1	Risk Rating	Points	Scenario 2	Risk Rating	Points
Question 1	High	4	Key Question 1	High	8
Question 2	Low	1	Question 2	Low	1
Question 3	Low	1	Question 3	Low	1
Total Risk Points:		6	Total Risk Points		10
Overall Risk	Moderate	2	Overall Risk	Significant	3.3

The Excel spreadsheet automatically assigns the risk rating by using the following algorithm:

1. Only the applicable questions are taken into consideration
2. The minimum possible points for the subject area are calculated, that is if all questions are assigned low risk rating
3. The maximum possible points for the subject area are calculated, that is if all questions are assigned high risk rating
4. The ranges for each risk rating are calculated by evenly distributing between the lowest and highest applicable points
5. The actual risk points are matched with one of the four risk ranges to determine the overall risk category.

The same algorithm is applied when calculated the overall risk rating for the IP.

Annex 3: Micro Assessment Report Format

Front Page

Micro Assessment of [Name of the IP] Commissioned by [Name of the UN Agency/ies] Name of the 3 rd Party Service Provider Date

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1. Background, Scope and Methodology

Background

The micro assessment is part of the requirements under the Harmonized Approach to Cash Transfers (HACT) Framework. The HACT framework represents a common operational framework for UN agencies' transfer of cash to government and non-governmental implementing partners.

The micro-assessment assesses the IP's control framework. It results in a risk rating (low, moderate, significant or high). The overall risk rating is used by the UN agencies, along with other available information (e.g. history of engagement with the agency and previous assurance results), to determine the type and frequency of assurance activities as per each agency's guideline and can be taken into consideration when selecting the appropriate cash transfer modality for an IP.

Scope

The micro-assessment provides an overall assessment of the Implementing Partner's programme, financial and operations management policies, procedures, systems and internal controls. It includes:

- A review of the IP legal status, governance structures and financial viability; programme management, organizational structure and staffing, accounting policies and procedures, fixed assets and inventory, financial reporting and monitoring, and procurement;
- A focus on compliance with policies, procedures, regulations and institutional arrangements that are issued both by the Government and the Implementing Partner.

It takes into account results of any previous micro assessments conducted of the Implementing Partner.

Methodology

We performed the micro-assessment from [date] to [date] at [describe locations].

Through discussion with management, observation and walk-through tests of transactions, we have assessed the Implementing Partner's and the related internal control system with emphasis on:

- The effectiveness of the systems in providing the Implementing Partner's management with accurate and timely information for management of funds and assets in accordance with work plans and agreements with the United Nations agencies;
- The general effectiveness of the internal control system in protecting the assets and resources of the Implementing Partner.

We discussed the results of the micro assessment with applicable UN agency personnel and the IP prior to finalization of the report. The list of persons met and interviewed during the micro-assessment is set out in Annex III.

2. Summary of Risk Assessment Results

[Executive summary of the overall risk assessment].

The table below summarizes the results and main internal control gaps found during application of the micro-assessment questionnaire (in Annex IV). Detailed findings and recommendations are set out in section 3. Below:

Tested subject area	Risk assessment*	Brief justification for rating (main internal control gaps)
1. Implementing partner		
2. Programme Management		
3. Organizational structure and staffing		
4. Accounting policies and procedures		
5. Fixed Assets and Inventory		
6. Financial Reporting and Monitoring		
7. Procurement		

Tested subject area	Risk assessment*	Brief justification for rating (main internal control gaps)
Overall Risk Assessment		

*High, Significant, Moderate, Low

3. Detailed Internal Control Findings and Recommendations

No.	Description of Finding	Recommendation and IP Management Response
1.	<p>Example: Insufficient staff training</p> <p><i>We noted that staff employed in the accounts department, who were primarily bookkeepers / administrators, had not received training on UN requirements for financial management and reporting, and had received only informal “on the job” training on the GABS accounting system.</i></p> <p><i>Lack of sufficient training increases the risk of error and failure to comply with the UN financial reporting requirements.</i></p>	<p><i>Example:</i></p> <p><i>The organisation should ensure staff are properly trained and aware of UN financial reporting requirements.</i></p> <p>IP Management Response</p> <p>A training session with the assistants of the UN Agency HACT Focal Point will be organized within the next month.</p>
	Etc	

Annex I. IP and Programme Information

Implementing partner name:	
Implementing partner code or ID in UNICEF, UNDP, UNFPA records (as applicable)	
Implementing partner contact details (contact name, email address and telephone number):	
Main programmes implemented with the applicable UN Agency/ies:	
Key Official in charge of the UN Agency/ies' programme(s):	
Programme location(s):	
Location of records related to the UN Agency/ies' programme(s):	
Currency of records maintained:	
Expenditures incurred/reported to UNICEF, UNDP and UNFPA (as applicable) during the most recent financial reporting period (in US\$);	
Cash transfer modality/ies used by the UN agency/ies to the IP	
Intended start date of micro assessment:	
Number of days to be spent for visit to IP:	
Any special requests to be considered during the micro assessment:	

Annex II. Implementing Partner Organizational Chart

Annex III. List of Persons Met

Name	Unit/organization	Position

Annex IV. Micro Assessment Questionnaire

Include here the completed questionnaire and provide it in original excel format to the UN agency.

Micro-assessment workbook

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
1. Implementing Partner						
1.1 Is the IP legally registered? If so, is it in compliance with registration requirements? Please note the legal status and date of registration of the entity.					Error	
1.2 If the IP received United Nations resources in the past, were significant issues reported in managing the resources, including from previous assurance activities.					Error	
1.3 Does the IP have statutory reporting requirements? If so, are they in compliance with such requirements in the prior three fiscal years?					Error	
1.4 Does the governing body meet on a regular basis and perform oversight functions?					Error	
1.5 If any other offices/ external entities participate in implementation, does the IP have policies and process to ensure appropriate oversight and monitoring of implementation?					Error	
1.6 Does the IP show basic financial stability in-country (core resources; funding trend) <i>Provide the amount of total assets, total liabilities, income and expenditure for the current and prior three fiscal years.</i>					Error	
1.7 Can the IP easily receive funds? Have there been any major problems in the past in the receipt of funds, particularly where the funds flow from government ministries?					Error	

1.8 Does the IP have any pending legal actions against it or outstanding material/significant disputes with vendors/contractors? <i>If so, provide details and actions taken by the IP to resolve the legal action.</i>					Error	
1.9 Does the IP have an anti-fraud and corruption policy?					Error	
1.10 Has the IP advised employees, beneficiaries and other recipients to whom they should report if they suspect fraud, waste or misuse of agency resources or property? If so, does the IP have a policy against retaliation relating to such reporting?					Error	
1.11 Does the IP have any key financial or operational risks that are not covered by this questionnaire? If so, please describe. <i>Examples: foreign exchange risk; cash receipts.</i>					Error	
Total number of questions in subject area:	11					
Total number of applicable questions in subject area:	11					
Total number of applicable key questions in subject area:	5					
Total number of risk points:	0					
Risk score	0					
Area risk rating	Low					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
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2. Programme Management						
2.1. Does the IP have and use sufficiently detailed written policies, procedures and other tools (e.g. project development checklist, work planning templates, work planning schedule) to develop programmes and plans?					Error	
2.2. Do work plans specify expected results and the activities to be carried out to achieve results, with a time frame and budget for the activities?					Error	
2.3 Does the IP identify the potential risks for programme delivery and mechanisms to mitigate them?					Error	
2.4 Does the IP have and use sufficiently detailed policies, procedures, guidelines and other tools (checklists, templates) for monitoring and evaluation?					Error	
2.5 Does the IP have M&E frameworks for its programmes, with indicators, baselines, and targets to monitor achievement of programme results?					Error	
2.6 Does the IP carry out and document regular monitoring activities such as review meetings, on-site project visits, etc.					Error	
2.7 Does the IP systematically collect, monitor and evaluate data on the achievement of project results?					Error	
2.8 Is it evident that the IP followed up on independent evaluation recommendations?					Error	
Total number of questions in subject area:	8					
Total number of applicable questions in subject area:	8					
Total number of applicable key questions in subject area:	2					

Total number of risk points:	0
Risk score	0
Area risk rating	Low

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
3. Organizational Structure and Staffing						
3.1 Are the IP's recruitment, employment and personnel practices clearly defined and followed, and do they embrace transparency and competition?					Error	
3.2 Does the IP have clearly defined job descriptions?					Error	
3.3 Is the organizational structure of the finance and programme management departments, and competency of staff, appropriate for the complexity of the IP and the scale of activities? Identify the key staff, including job titles, responsibilities, educational backgrounds and professional experience.					Error	
3.4 Is the IP's accounting/finance function staffed adequately to ensure sufficient controls are in place to manage agency funds?					Error	
3.5 Does the IP have training policies for accounting/finance/ programme management staff? Are necessary training activities undertaken?					Error	

3.6 Does the IP perform background verification/checks on all new accounting/finance and management positions?					Error	
3.7 Has there been significant turnover in key finance positions the past five years? If so, has the rate improved or worsened and appears to be a problem?					Error	
3.8 Does the IP have a documented internal control framework? Is this framework distributed and made available to staff and updated periodically? If so, please describe.					Error	
Total number of questions in subject area:	8					
Total number of applicable questions in subject area:	8					
Total number of applicable key questions in subject area:	3					
Total number of risk points:	0					
Risk score	0					
Area risk rating	Low					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
4. Accounting Policies and Procedures						
4a. General						

4.1 Does the IP have an accounting system that allows for proper recording of financial transactions from United Nations agencies, including allocation of expenditures in accordance with the respective components, disbursement categories and sources of funds?					Error	
4.2 Does the IP have an appropriate cost allocation methodology that ensures accurate cost allocations to the various funding sources in accordance with established agreements?					Error	
4.3 Are all accounting and supporting documents retained in an organized system that allows authorized users easy access?					Error	
4.4 Are the general ledger and subsidiary ledgers reconciled at least monthly? Are explanations provided for significant reconciling items?					Error	
4b. Segregation of duties						
4.5 Are the following functional responsibilities performed by different units or individuals: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?					Error	
4.6 Are the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated?					Error	
4.7 Are bank reconciliations prepared by individuals other than those who make or approve payments?					Error	
4c. Budgeting system						
4.8 Are budgets prepared for all activities in sufficient detail to provide a meaningful tool for monitoring subsequent performance?					Error	
4.9 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations from the budget?					Error	
4.10 Is prior approval sought for budget amendments in a timely way?					Error	

4.11 Are IP budgets approved formally at an appropriate level?					Error	
4d. Payments						
4.12 Do invoice processing procedures provide for: <ul style="list-style-type: none"> • Copies of purchase orders and receiving reports to be obtained directly from issuing departments? • Comparison of invoice quantities, prices and terms with those indicated on the purchase order and with records of goods/services actually received? • Checking the accuracy of calculations? 					Error	
4.13 Are payments authorized at an appropriate level? Does the IP have a table of payment approval thresholds?					Error	
4.14 Are all invoices stamped 'PAID', approved, and marked with the project code and account code?					Error	
4.15 Do controls exist for preparation and approval of payroll expenditures? Are payroll changes properly authorized?					Error	
4.16 Do controls exist to ensure that direct staff salary costs reflects the actual amount of staff time spent on a project?					Error	
4.17 Do controls exist for expense categories that do not originate from invoice payments, such as DSAs, travel, and internal cost allocations?					Error	
4e. Policies and procedures						
4.18 Does the IP have a stated basis of accounting (i.e. cash or accrual) and does it allow for compliance with the agency's requirement?					Error	
4.19 Does the IP have an adequate policies and procedures manual and is it distributed to relevant staff?					Error	
4f. Cash and bank						
4.20 Does the IP require dual signatories / authorization for bank transactions? Are new signatories approved at an appropriate level and timely updates made when signatories depart?					Error	
4.21 Does the IP maintain an adequate, up-to-date cashbook, recording receipts and payments?					Error	

4.22 If the partner is participating in micro-finance advances, do controls exist for the collection, timely deposit and recording of receipts at each collection location?					Error	
4.23 Are bank balances and cash ledger reconciled monthly and properly approved? Are explanations provided for significant, unusual and aged reconciling items?					Error	
4.24 Is substantial expenditure paid in cash? If so, does the IP have adequate controls over cash payments?					Error	
4.25 Does the IP carry out a regular petty cash reconciliation?					Error	
4.26 Are cash and cheques maintained in a secure location with restricted access? Are bank accounts protected with appropriate remote access controls?					Error	
4.27 Are there adequate controls over submission of electronic payment files that ensure no unauthorized amendments once payments are approved and files are transmitted over secure/encrypted networks?					Error	
4g. Other offices or entities						
4.28 Does the IP have a process to ensure expenditures of subsidiary offices/ external entities are in compliance with the work plan and/or contractual agreement?					Error	
4h. Internal audit						
4.29 Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?					Error	
4.30 Does the IP have stated qualifications and experience requirements for internal audit department staff?					Error	
4.31 Are the activities financed by the agencies included in the internal audit department's work programme?					Error	
4.32 Does the IP act on the internal auditor's recommendations?					Error	
Total number of questions in subject area:	32					
Total number of applicable questions in subject area:	32					

Total number of applicable key questions in subject area:	19
Total number of risk points:	0
Risk score	0
Area risk rating	Low

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
5. Fixed Assets and Inventory						
5a. Safeguards over assets						
5.1 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?					Error	
5.2 Are subsidiary records of fixed assets and inventory kept up to date and reconciled with control accounts?					Error	
5.3 Are there periodic physical verification and/or count of fixed assets and inventory? If so, please describe?					Error	
5.4 Are fixed assets and inventory adequately covered by insurance policies?					Error	
5b. Warehousing and inventory management						
5.5 Do warehouse facilities have adequate physical security?					Error	
5.6 Is inventory stored so that it is identifiable, protected from damage, and countable?					Error	

5.7 Does the IP have an inventory management system that enables monitoring of supply distribution?					Error	
5.8 Is responsibility for receiving and issuing inventory segregated from that for updating the inventory records?					Error	
5.9 Are regular physical counts of inventory carried out?					Error	
Total number of questions in subject area:	9					
Total number of applicable questions in subject area:	9					
Total number of applicable key questions in subject area:	2					
Total number of risk points:	0					
Risk score	0					
Area risk rating	Low					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
6. Financial Reporting and Monitoring						
6.1 Does the IP have established financial reporting procedures that specify what reports are to be prepared, the source system for key reports, the frequency of preparation, what they are to contain and how they are to be used?					Error	
6.2 Does the IP prepare overall financial statements?					Error	

6.3 Are the IP's overall financial statements audited regularly by an independent auditor in accordance with appropriate national or international auditing standards? If so, please describe the auditor.					Error	
6.4 Were there any major issues related to ineligible expenditure involving donor funds reported in the audit reports of the IP over the past five years?					Error	
6.5 Have any significant recommendations made by auditors in the prior five audit reports and/or management letters over the past five years and have not yet been implemented?					Error	
6.6 Is the financial management system computerized?					Error	
6.7 Can the computerized financial management system produce the necessary financial reports?					Error	
6.8 Does the IP have appropriate safeguards to ensure the confidentiality, integrity and availability of the financial data? <i>E.g. password access controls; regular data back-up.</i>					Error	
Total number of questions in subject area:	8					
Total number of applicable questions in subject area:	8					
Total number of applicable key questions in subject area:	3					
Total number of risk points:	0					
Risk score	0					
Area risk rating	Low					

Subject area (key questions in bold)	Yes	No	N/A	Risk Assessment	Risk points	Remarks/comments
7. Procurement and Contract Administration						
7a. Procurement						
7.1 Does the IP have written procurement policies and procedures?					Error	
7.2 Are exceptions to procurement procedures approved by management and documented ?					Error	
7.3 Does the IP have a computerized procurement system with adequate access controls and segregation of duties between entering purchase orders, approval and receipting of goods? Provide a description of the procurement system.					Error	
7.4 Are procurement reports generated and reviewed regularly? Describe reports generated, frequency and review & approvers.					Error	
7.5 Does the IP have a structured procurement unit with defined reporting lines that foster efficiency and accountability?					Error	
7.6 Is the IP's procurement unit resourced with qualified staff who are trained and certified and considered experts in procurement and conversant with UN / World Bank / European Union procurement requirements in addition to the a IP's procurement rules and regulations?					Error	
7.7 Have any significant recommendations related to procurement made by auditors in the prior five audit reports and/or management letters over the past five years and have not yet been implemented?					Error	
7.8 Does the IP require written or system authorizations for purchases? If so, evaluate if the authorization thresholds are appropriate?					Error	

7.9 Do the procurement procedures and templates of contracts integrate references to ethical procurement principles and exclusion and ineligibility criteria?					Error	
7.10 Does the IP obtain sufficient approvals before signing a contract?					Error	
7.11 Does the IP have and apply formal guidelines and procedures to assist in identifying, monitoring and dealing with potential conflicts of interest with potential suppliers/procurement agents? If so, how does the IP proceed in cases of conflict of interest?					Error	
7.12 Does the IP follow a well-defined process for sourcing suppliers? Do formal procurement methods include wide broadcasting of procurement opportunities?					Error	
7.13 Does the IP keep track of past performance of suppliers? E.g. database of trusted suppliers.					Error	
7.14 Does the IP follow a well-defined process to ensure a secure and transparent bid and evaluation process? If so, describe the process.					Error	
7.15 When a formal invitation to bid has been issued, does the IP award the contract on a pre-defined basis set out in the solicitation documentation taking into account technical responsiveness and price?					Error	
7.16 If the IP is managing major contracts, does the IP have a policy on contracts management / administration?					Error	
7b. Contract Management - To be completed only for the IPs managing contracts as part of programme implementation. Always required for FAO. Otherwise select N/A for risk assessment						
7.17 Are there personnel specifically designated to manage contracts or monitor contract expirations?					Error	
7.18 Are there staff designated to monitor expiration of performance securities, warranties, liquidated damages and other risk management instruments?					Error	
7.19 Does the IP have a policy on post-facto actions on contracts?					Error	
7.20 How frequent do post-facto contract actions occur?					Error	

Total number of questions in subject area:	20
Total number of applicable questions in subject area:	20
Total number of applicable key questions in subject area:	5
Total number of risk points:	0
Risk score	0
Area risk rating	Low

Totals	
Total number of questions:	96
Total number of applicable questions:	96
Total number of applicable key questions:	39
Total number of risk points:	0

Total risk score

0

Overall risk rating

Low

Appendix II: UNICEF Spot Check Guidance

Background

The UNICEF Procedure on Harmonized Approach to Cash Transfers to Implementing Partners (FRG/2015/PROCEDURE/002) ([HACT Procedure](#)) defines spots checks as:

“...a review of financial records to obtain reasonable assurance that amounts reported by implementation partners on the FACE form are accurate. Spot checks are performed in the office of implementing partners where financial records are kept. Spot checks are not audits therefore the extent of expense testing is generally lower (i.e. a single FACE form or quarter) than what would be undertaken during an audit.” (para 12(d)).

This guidance builds on the standard terms of reference for spot checks in the [UNDG HACT Framework \(2014\)](#).

Purpose

The purpose of this guidance is to:

1. Assist UNICEF staff to understand the spot check process;
2. Provide a standard approach to work steps undertaken during a spot check; and
3. Provide a standard approach to documentation and follow up of findings.

Use of this Guidance

This guidance is for the UNICEF Country and Regional Office HACT Focal Points and for staff conducting spot checks.

The use of this guidance and attached templates is not mandatory. UNICEF Offices can customize the testing procedures and the attached templates based on the specific programme detail and operating environment as long as they follow the main activities in the spot check process as described in the following paragraph.

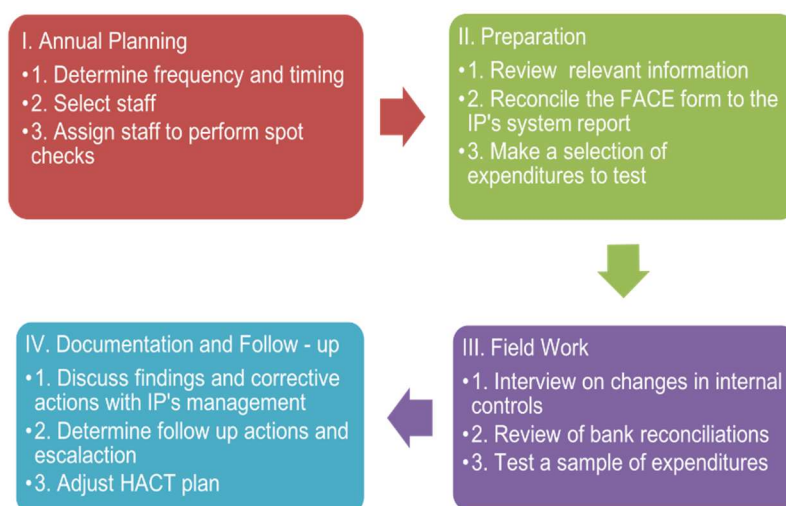
Spot Check Process

The spot check process consists of four activities. The main timeframe and responsibilities are summarized in the table below.

	Activity	When?	How long?	Where?	By who?
I.	Annual Planning	At the beginning of the year	Part of the OMP / AMP	UNICEF office	HACT Focal point / Section Chiefs
II.	Preparation	At least three days before field work	Half day	UNICEF office	Programme manager / Spot checker
III.	Field Work	Day of fieldwork	One day	IP's office	Spot checker
IV.	Follow-up	Varies in relation to issues identified	Half day to a day	UNICEF / IP office	Programme manager / Spot checker

Structure of this Guidance

The Spot Check Guidance consists of four sections, each one providing a summary of the main activities and detailed steps to complete each activity.



Suggested templates are included as annexes:

1. Annex A: Spot Check Checklist
2. Annex B: Spot Check Report
3. Annex C: Testing of Expenditure Worksheet
4. Annex D: Detailed Findings and Recommendations

	Activity	When?	How long?	Where?	By who?
I.	Annual Planning	At the beginning of the year	Part of the OMP / AMP	UNICEF office	HACT Focal point / Section Chiefs
II.	Preparation	At least three days before field work	Half day	UNICEF office	Programme manager / Spot checker
III.	Field Work	Day of fieldwork	One day	IP's office	Spot checker
IV.	Follow-up	Varies in relation to issues identified	Half day to a day	UNICEF / IP office	Programme manager / Spot checker

The spot check process begins with the preparation of the annual assurance plan and assigning staff to conduct spot checks.

ACTIVITY I: ANNUAL PLANNING

Annual planning is undertaken at the beginning of the year in order to determine timing and frequency of the spot checks and to assign staff to perform the spot checks.

I.1 Determine the frequency of spot checks

The number of spot checks conducted annually for each implementing partner (IP) is determined based on: 1) the minimum requirements in the HACT Procedure - *Table 1: Frequency of Assurance Activities*; 2) knowledge of the partner; and 3) the operational context.

I.2 Determine the timing of the spot checks

UNICEF Offices plan and monitor the execution of spot checks on a quarterly basis (*para. 70 HACT Procedure*). UNICEF Offices conduct spot checks after the IP has submitted a FACE form reporting actual programme expenditure. UNICEF Offices should agree with the IP the most suitable date and allow for at least one week for preparation for the spot check.

I.3 Assign staff to perform the spot checks

UNICEF Offices that decide to have internal staff conduct spot checks should create a roster of qualified staff that meet the requirements of the HACT Procedure. UNICEF Offices should monitor the quality of spot checks and provide training and development opportunity to staff that has potential but does not meet the minimum requirements. Qualified staff cannot conduct spot checks on programmes for which he or she has reviewed the FACE forms (*para. 59 HACT Procedure*).

I.1 Determine the frequency of spot checks

The frequency of spot checks is determined based on the risk rating of the IP as established by the micro assessment and the planned cash transfer amount for the year.

The minimum spot check requirements for IPs receiving UNICEF funds are outlined in para 23(g) of the HACT Procedure as follows:

Cash transfer amount per year	Risk rating	Spot checks
Up to \$50,000	All risk ratings	Not required
\$50,001 - \$100,000	All risk ratings	1 or more per year
\$100,001- \$350,000	Low or Medium	1 or more per year
	Significant or High	2 or more per year
More than \$350,000	Low or Medium	1 or more per year
	Significant or High	3 or more per year

For CSO IPs, the number of required spot checks has to be indicated in the *Programme Document*, *Section 4. Partnership Review*, *4.2 Assurance activities planned for the programme duration* as required in the [UNICEF CSO Procedure](#), Annex C.

Section 4. Partnership review (To be completed with UNICEF as part of finalization of the programme document)			
4.1 Financial management assessment (if applicable)	Date planned/ completed		
	Risk rating	Low / Medium / Significant / High / Non-assessed	
4.2 Assurance activities planned for the programme duration	Type	#	Date planned/ frequency
	Programmatic visits		
	Spot checks		
	Audit	Yes/No	
4.3 Other	Partnership review		
4.4 Cash transfer modality(ies)			
4.5 PRC Ref.#			

The frequency of spot checks for each IP is determined by the total amount transferred to the IP. The HACT Procedure specifies the **minimum** requirements. UNICEF Offices may increase the frequency based on the operating context and knowledge of the IP. However, UNICEF Offices should consider a balanced approach between risk, cost and value add of additional spot checks, including whether there is internal capacity to undertake additional spot checks – be realistic.

Example

An IP is implementing multiple programmes with different programme sections. The micro assessment has resulted in a medium risk rating. The IP uses the same finance staff to account and report on the funds received from UNICEF. However, the IP has different project managers for each programme. A spot check was conducted on the WASH programme in the previous year.

Programme	Section	Planned Cash Transfers for the year	Min spot checks required for the year
# 2015 – 1	WASH	\$150,000	
# 2015 – 2	Health	\$120,000	
# 2015 – 3	HIV	\$60,000	
# 2015 – 4	Child Protection	\$50,000	
	<i>Total:</i>	\$380,000	1

The minimum spot check requirement for the IP in this example is one (1). To meet this requirement the office can take any of the following approaches:

- Conduct one spot check for the year on the WASH programme because it is the largest
- Conduct one spot check on the Health programme because a spot check was already conducted on the WASH programme in the previous year and there were

I.2 Determine the timing of spot checks

Prioritize

Once the frequency of spot checks has been determined, the UNICEF Office has to determine when the spot checks will take place.

Priority should be given to spot checks planned for IPs for which:

- The UNICEF Office has no prior experience;
- The micro assessment resulted in significant or high risk or no assessment has been conducted;
- No prior financial assurance activities were conducted (prior spot checks or audits);
- Previous assurance activities (programmatic visits, spot checks or audits) identified significant deficiencies in the internal controls or programme implementation; and
- Larger amount of cash transfer is planned.

Monitor on quarterly basis

- Begin doing spot checks earlier in the fiscal year – in quarter 1
- Monitor the progress of actual performed versus planned spot checks on a quarterly basis
- Adjust the HACT Plan quarterly for spot checks planned but not completed by rescheduling them for the following quarters.

Failure to do so can result in an unrealistic number of spot checks that have to be completed in the last quarter! It also represents failure to proactively identify an IP's poor financial management and reporting practices so to jointly implement timely corrective actions.

Schedule the spot check

- In order to conduct a spot check, the IP must have submitted a FACE form reporting actual programme expenditures. Therefore, the earliest a spot check can be conducted is during the second quarter of programme implementation.
- During the first quarter of the fiscal year, the UNICEF Office can conduct spot checks on the 4th quarter of the previous fiscal year. Similarly, the actual programme expenditures reported in the last quarter of the year can only be spot checked in the following year.
- The actual date that the spot check will be performed should be agreed in advance with the IP taking into consideration the availability of qualified UNICEF staff and the availability of the IP staff and management.
- As a general rule, give at least one week lead time for the IP to prepare all required documentation.

I.3 Assign staff to perform the spot check

Each UNICEF Office determines whether qualified internal staff or external service providers (or a combination of both) undertake spot checks. The decision on the appropriate approach to execute assurance activities is documented in the annual management plan (AMP) (*para. 60 HACT Procedure*).

If a decision is made that internal staff will be conducting spot checks, the UNICEF Office must ensure that the staff performing the spot checks possess a minimum of 5 years' experience in financial management, knowledge of UNICEF-supported programmes, the programming context, the interagency HACT Framework and the terms of reference of spot checks. (*para. 64 HACT Procedure*).

Required experience in financial management may be replaced by documented on the job training, regular coaching and supervision by qualified UNICEF staff or quality assurance by an external service provider. Head of Office determines whether staff is qualified to undertake spot checks. UNICEF offices can also contact other UNICEF offices for assistance in carrying out spot checks.

Example

A relatively newly hired programme assistant, Maureen, does not have five years experience in financial management. During the past year, Maureen has received excellent performance reviews and has demonstrated an understanding of HACT, the CSO Procedure requirements, IP budgeting and IP reporting processes. She has assisted the UNICEF Programme Manager in reviewing the FACE forms and pointed out discrepancies. The Section Chief nominates Maureen for the spot checker roster.

The UNICEF Office put the following training plan:

- The HACT Focal Point provides Maureen with a training on the spot check guidance;
- Maureen is paired with a qualified experienced staff to conduct two spot checks:
 - The first spot check she is observing and assisting the experienced staff;
 - The second spot check she is leading the spot check and the experienced staff is observing and providing guidance;
- Maureen conducts a third spot check on her own and the report and working papers are reviewed in detailed by a qualified experienced staff.

If the quality of the working papers and findings are satisfactory, Maureen will be placed on the spot checker roster. If not, further coaching and supervision is provided to Maureen and the UNICEF Office reconsiders whether she will be able to conduct spot checks.

UNICEF Offices should periodically review a sample of spot check reports in order to ensure quality of the documentation and findings. This exercise may also be used as a capacity building opportunity for internal staff, by identifying knowledge gaps and training opportunities.

Attention

In order to prevent conflict of interest and self-review, UNICEF staff are not permitted to conduct spot checks on those programmes for which they have been involved in reviewing the FACE forms submitted by the IP. For example, if a Programme Assistant in the WASH section is qualified to conduct spot checks, s/he may not conduct spot checks on those programmes for which s/he is involved. However s/he may conduct spot checks on other programmes in the WASH section or in any other section.

Attention

Staff that meet or exceed the 5 years' experience in finance and accounting still need to have knowledge of the UNICEF programme and programming context. For new staff or existing UNICEF financial staff with limited exposure to programming, this knowledge is often best gained through being accompanied on initial spot checks with programme staff.

Tip

Offices may find that they have staff that do not meet the experience requirements but have potential to undertake spot checks. In such situations, the office can put in place an approach of more extensive on-the-job training, supervision (through regular review of working papers and reports) and coaching by an experienced spot checker meeting the minimum experience requirements.

	Activity	When?	How long?	Where?	By who?
I.	Annual Planning	At the beginning of the year	Part of the OMP / AMP	UNICEF office	HACT Focal point / Section Chiefs
II.	Preparation	At least three days before field work	Half day	UNICEF office	Programme manager / Spot checker
III.	Field Work	Day of fieldwork	One day	IP's office	Spot checker
IV.	Follow-up	Varies in relation to issues identified	Half day to a day	UNICEF / IP office	Programme manager / Spot checker

ACTIVITY II: SPOT CHECK PREPARATION

In order to conduct an effective spot check, the staff or team conducting the spot check (referred to henceforth as “spot checker”) familiarizes themselves with the programme and related FACE form and make a selection of transactions to test.

It is advised that preparation take place a week before the spot check so that the UNICEF Office can provide the sample selection to the IP in order to allow the IP to provide all required support documentation at the time of fieldwork.

II.1: Review relevant information

The spot checker responsible for conducting the spot check should review:

- The programme document or workplan;
- The micro assessment report if available;
- Latest programmatic visit and progress reports;
- The FACE form requesting funding, the ICE and the FACE form reporting on the actual programme expenditures; and
- Results of previous audits or spot checks.

II.2 Reconcile the FACE form to the IP's system report

A spot check is conducted on **one** FACE form - usually the most recent FACE reporting actual programme expenditures.

The UNICEF programme manager requests the transaction report from the IP's system and the spot checker ensures that the report is for the correct period and the total amounts in the report per activity match the amounts reported on the FACE form.

III.3 Make a selection of expenditures to test

It is not required to test every transaction reported by the IP. Depending on the type of expenses, the spot checker should select no less than 20% and no more than 80% of the expenses to test aiming for 50%. The spot checker uses a risk- based approach during selection, identifying large and unusual expenses.

II.1: Review relevant information

In preparation for the spot check, the spot checker responsible to conduct the spot check should review the following documents:

Document	Objective
Programme document / workplan	To become familiar with the programme background and approved activities
Micro assessment report	To understand the high priority observations and recommendations. During the interview, the spot checker should inquire whether high priority recommendations flagged for follow up have been implemented.
Latest programmatic visits and progress reports	To understand what activities took place as well as challenges in implementation
The FACE form requesting funding with the accompanying ICE and the FACE form reporting the actual programme expenditures	To understand the activities and inputs which were authorized
Previous spot check or audit reports	To identify the high priority observations and recommendations. During the spot check, the spot checker should inquire whether the IP has implemented the recommendation and verify it through the testing procedure.

The spot checker should discuss with the UNICEF Programme Manager any concerns regarding the IP's financial management and internal controls.

II.2: Reconcile the face form to the IP's system report

After reviewing the relevant information, the UNICEF Programme Manager contacts the IP to inform them of the upcoming spot check and agree on the date of the spot check. He or she requests the detailed transactions that support the actual programme expenditure reported on the FACE form.

Tip

Spot checks are performed on FACE forms that report the use of cash transfers. (direct cash transfer (DCT) i.e. liquidation; requested reimbursement of expenses; or requested direct payment to the vendor). While not required (nor typical), an office may decide to conduct the spot check prior to liquidation, reimbursement or direct payment for a specific IP. Offices may decide to take this exceptional approach in cases where: the IP is new and a micro assessment has not yet been conducted; or where previous assurance activities have identified significant internal control deficiencies or failure to obtain assurance on the programme expenditures reported.

Attention

If the HACT plan indicates one spot check and the IP has submitted three FACE forms of actual programme expenditures on a single work plan – select only one FACE form. Conducting a spot check on all the expenditures to date will represent conducting three spot checks or an audit.

If more than one FACE form is available, select the FACE form on which the spot check will be performed.

Example

If more than one FACE form has been submitted to report actual expenditures, as a general rule the spot check should be conducted on the most recent FACE form. Exception takes place if the amount of actual expenditures reported on a previous FACE form for the same partner significantly exceeds (more than 100%) subsequent FACE forms. For example, assume the following two scenarios for an IP that is planned for a spot check in Q4. The IP has submitted three FACE forms of actual expenditures as follows:

	FACE Q1	FACE Q2	FACE Q3	Spot Check on
Scenario 1	\$150,00	\$80,000	\$110,000	FACE Q3
Scenario 2	\$150,00	\$30,000	\$20,000	FACE Q1

In Scenario 1, the spot check team should select the FACE form for Q3 as it is the

Once the IP has provided the detailed transaction listing (also referred to as “system report”), it is important to reconcile the report to the FACE form to be tested by:

1. Ensure that the dates on the system report correspond to the reporting period on the FACE form. For example, if the FACE form is reporting actual expenditures for Q1, the dates on the system report should be 1 January 20XX to 31 March 20XX. If there are transactions conducted outside of the reporting period, they are deemed ineligible unless the IP can prove that they have not been and will not be reported on another FACE form.
2. Ensure that the total amount of transactions on the report is equal to the total amount on the FACE form. If the amount on the report is smaller, the difference is deemed ineligible and a refund is required. If the amount is higher, the IP has to explain why the expenses were not reported on the FACE form.
3. The subtotal by activity in the report must match the total amount for each activity reported on the FACE form. If the amount on the report is smaller, the difference is deemed ineligible and a refund is required. If the amount is higher, the IP has to explain why the expenses were not reported on the FACE form.

Attention

It is possible that the total expenditures recorded in the system report exceed the amounts reported on the FACE form if:

- The IP is contributing financial resources to the programme and / or
- The IP is receiving funding from multiple donors for the same programme

AND

- The IP's accounting system is not set up for fund accounting.

In this situation, the spot checker should verify that original invoices are stamped as "PAID from UNICEF" in order to ensure that the expense was properly reported on the FACE form.

II.3: Make a selection of expenditures to test

Not all amounts reported by an IP are tested during a spot check. The exact coverage (the amount of the items selected for testing compared to the total amount reported on the FACE form) cannot be prescribed due to the differences in programmes and the nature of their expenses. The goal should be to obtain coverage of approximately 50% of the actual expenditure reported on the FACE form. However, spot checks should test no less than 20% and no more than 80% of the actual programme expenditure reported.

The selection of expenses should be done using a risk-based approach using the following rules:

- Select at least one expense from each expense category that is equal to or exceeds 5% of the actual expenditures reported on the FACE form
- Focus on larger valued items, but also include some smaller valued items
- Select unusual or high risk items, for example:
 - Description of the expense is not appropriate for the expense category in which it is included
 - Description of the expense is not appropriate for the activity or the work plan
 - Description of the expense is general or vague or there is no description at all
 - Date on which the expense was incurred or reported is not appropriate for the reporting period on the FACE form
 - The amount of the expense is unusual for the type of expense (round number or large number)
 - The same expense and amount is recorded multiple times.

Using a risk-based approach allows the spot checker to conduct the spot check as efficiently and effectively as possible, benefiting both the UNICEF team and the IP. It focuses attention on identifying and testing those expenses that have the potential to materially affect the report of actual programme expenditures.

Attention

During the sample selection it is important to document:

- The source for the sample selection (for example, download from the IP's accounting system)
- Expense categories and transactions selected

Example

For the first quarter of the programme implementation, an IP submitted a FACE form reporting on DCT utilization as follow:

Activity	Authorized Amount (Jan – Mar)	Actual Project Expenditure
Community sanitation for district 3	\$40,000	\$37,720

The IP provided the following support for the actual project expenditures reported on the FACE form, in the form of a download from their accounting system:

Category of Expenditure	Actual expenditure for Jan - Feb
Personnel (salaries and wages)	6,300
Travel	150
Consultation	2,100
Construction	16,700
Direct Materials	11,300
Consumable materials	420
Training	750
<i>Total activity costs</i>	<i>\$37,720</i>

At least one expense is selected from each expense category that is equal or

Example (continued):

The category, Direct Materials, included the following detailed transactions:

Record #	Date	Description	Amount
7305	26-Dec	Septic tanks	2,678
7309	05-Jan	Fixtures	175
7310	10-Jan	Construction supplies	3,335
7331	12-Feb	Storage tanks	2,000
7333	17-Feb	Lighting	415
7336	05-Mar		735
7337	11-Mar	Toilettes	1,215
7340	15-Mar	Computer	747
Total:			\$11,300

Using a risk- based approach, the following transactions are selected:

- 7305 – The expense is recorded before the programme has started – in December

	Activity	When?	How long?	Where?	By who?
I.	Annual Planning	At the beginning of the year	Part of the OMP / AMP	UNICEF office	HACT Focal point / Section Chiefs
II.	Preparation	At least three days before field work	Half day	UNICEF office	Programme manager / Spot checker
III.	Field Work	Day of fieldwork	One day	IP's office	Spot checker
IV.	Follow-up	Varies in relation to issues identified	Half day to a day	UNICEF / IP office	Programme manager / Spot checker

ACTIVITY III: FIELD WORK

Testing procedures are performed at the IP's location where the books and records for the programme are maintained. Fieldwork is generally conducted within one day and involves three steps:

III.1 Interview on changes in internal controls

An interview with the finance and programme management takes place to determine whether the high priority recommendations from the micro assessment and prior spot checks and audits have been implemented and whether there have been any significant changes in the internal controls of the organization.

III.2 Review of bank reconciliation

If the IP maintains a separate bank account for funds received from UNICEF, ensure that the bank account is reconciled to the IP's accounting system and the system report received.

III.3 Test a sample of expenditures

For the sample selected in Activity II.3, complete *Annex C: Testing of Expenditure Worksheet*. UNICEF Offices can modify the worksheet as long as the testing procedures are completed.

A modified MS Excel Spreadsheet is attached for convenience:



Annex C Testing of
Expenditures Works

Included in the guidance are specific procedures for procurement, payroll and cost allocation testing.

III.1 Interview on changes in internal controls

In order to determine if there have been any significant changes to the internal controls applicable for the IP, the spot checker should:

- Conduct an interview with the finance and programme management of the IP to understand if they have implemented any high priority recommendations from the micro assessment and previous assurance activities if any. Obtain evidence during the expense testing.
- Inquire with management if there have been any changes in the organization, including:
 - Changes in the organization structure and key programme or finance management positions;
 - Changes to the internal policies or procedures;
 - Changes to the financial management processes;
 - Changes in the accounting or reporting systems.
- Determine if any of the changes increase the risk of successful and timely programme implementation or the accuracy of the financial reporting of the IP.
- Document the changes in the Annex B: Spot Check Report.

Example

A previous spot check identified that while the IP was using fund accounting, invoices were not stamped or marked as to which source of funding was used to pay the invoice. (For example, "Paid by UNICEF PCA 2013-2). The spot check report recommended for the IP to start this practice.

Prior to undertaking testing of expenditures during the current spot check, the UNICEF spot check team discussed with management whether the recommendation had been implemented. Management confirmed that it had and explained that they are writing the source of funding in ink on each invoice.

	Procedure	Findings
1	Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle.	Management stated that previous recommendation has been implemented and all sources of funding have to be written in ink on the invoice specifying funding agency and specific agreement

III.2 Review of bank reconciliations

While there is no specific requirement, some IP will deposit funds received from UNICEF into a separate bank account. In this situation, confirm that a bank reconciliation was completed and that the balance has been reconciled to the accounting records / system report obtained for the spot check period. Observe and inquire on any unusual reconciling items.

III.3 Test a sample of expenditures

Prior to testing, request an explanation from the IP management how they determine what expenses are charged to the UNICEF project. This will allow you to see if the IP's internal procedures have been followed.

For each expense selected, perform the following testing procedures and document using Annex C: Testing of Expenditure Worksheet.

Each procedure in Annex C and the appropriate manner to document is described below:

1. Document the record (reference) number of the expense from the IP's accounting system, the amount of the expense and the description of the expense in the appropriate fields.

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
Expense # 1234, from 3-Jan for Four fences Invoice 123 from 1-Jan for \$100.	\$1,000								

Verify that original documentation exists to support the expenditure. The documentation will vary in accordance with the type of expense (for example procurement, payroll, allowances, etc.) and the financial management practices of the IP. The evidence obtained should prove that the expense was incurred as reported. Examples include:

- Purchase requisition
- Invoice
- Goods receipt
- Ledgers and log books
- Contracts or other legal agreements.

Document the type of evidence obtained, the date and number in the appropriate field (Do not write only Y or N in the required field. Document the date, number and type of document reviewed and the amount)

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
Expense # 1234, from 3-Jan for Four fences Invoice 123 from 1-Jan for \$100.	\$1,000	Yes, reviewed: Purchase request # 123 for \$1,000 for Fences Invoice # 456 from Acme Store for four fences for \$1,000 Purchase request # 789 for \$1,000							

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
		Check #012 for \$1,000 made to Acme Store Goods receipt #345 for Four fences							

- Verify that the activity related to the expenditure is in accordance with the work plan and the itemized cost estimate. Through the review of the evidence in the previous procedure, ensure that the description is in line in the work plan and ICE and document the evidence in the appropriate field (Do not write only Y or N in the required field. Document what activity and budget line the expense relates).

Attention

It is possible and expected that the amount of the actual expenditures will differ from the amounts in the ICE. Refer to *Annex H: Budgeting, Implementation and Financial Reporting* (attached) of the [UNICEF Procedure for Country and Regional Office Transfer of Resources to Civil Society Organizations](#) for



Annex H
Budgeting and Fin

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
Expense # 1234, from 3-Jan for Four fences Invoice 123 from 1-Jan for \$100.	\$1,000	Yes, reviewed: Purchase request # 123 for \$1,000 for Fences Invoice # 456 from Acme Store for four fences for \$1,000 Purchase request # 789 for \$1,000 Check #012 for \$1,000 made to Acme Store	Agrees to activity Construction of fenced and shaded playground, item 1.5 Fencing.						

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
		Goods receipt #345 for Four fences							

3. Verify that the expenditure has been reviewed and approved in accordance with the IP's rules and procedures and agreements with UNICEF. From the documents obtained previously or discussions with management prior to conducting expense testing, ensure that an appropriate review and approval has occurred and is documented, such as signature or stamp. Do not write only Y or N in the required field. Document who has reviewed and approved the evidence obtained.

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
Expense # 1234, from 3-Jan for Four fences Invoice 123 from 1-Jan for \$100.	\$1,000	Yes, reviewed: Purchase request # 123 for \$1,000 for Fences Invoice # 456 from Acme Store for four fences for \$1,000 Purchase request # 789 for \$1,000 Check #012 for \$1,000 made to Acme Store Goods receipt #345 for Four fences	Agrees to activity Construction of fenced and shaded playground, item 1.5 Fencing.	Yes, Payment request was approved by the Finance Manager, Invoice and payment request signed by the Project manager. Check signed by Finance director and Office manager.					

4. Verify that the expenditure was reflected on a certified FACE form submitted to the agency and recorded in the IP's accounting records and bank statement. The purpose of the procedure is to ensure that the evidence provided makes up the actual expenses reported on the FACE form, is recorded in the IPs books and records and that the expense was actually paid. The easiest way to do this is during sample selection, when the spot checker ensures that the detailed transactions obtained are from the accounting system and sums up to the total actual expenses reported on the activity on the FACE form. Then ensure that there is proof that payment was made, such as check or bank transfer.

Do not write only Y or N in the required field. Document what proof you have obtained that the payment was made and how you have ensured that the expense was reported on the FACE form and in the IP's accounting system.

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
Expense # 1234, from 3-Jan for Four fences Invoice 123 from 1-Jan for \$100.	\$1,000	Yes, reviewed: Purchase request # 123 for \$1,000 for Fences Invoice # 456 from Acme Store for four fences for \$1,000 Purchase request # 789 for \$1,000	Agrees to activity Construction of fenced and shaded playground, item 1.5 Fencing.	Yes, Payment request was approved by the Finance Manager, Invoice and payment request signed by the Project manager.	Yes, agreed to the download from the IP's system that makes up the FACE form amounts. Viewed check # 123 from 13-Jan for \$1,000				

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
		Check #012 for \$1,000 made to Acme Store Goods receipt #345 for Four fences		Check signed by Finance director and Office manager.	and agreed it to the January bank statement.				

5. Verify that supporting documents are stamped 'PAID from UNICEF funding', indicating which agency funded the transaction. The purpose of the procedure is to ensure that the same expense is not reported and claimed to other donors or on other programmes. If the IP is not using stamps and uses fund accounting, ensure that the invoice (or other evidence) has an appropriate code to the UNICEF fund (programme) both in the accounting system and on the original document. Do not write only Y or N in the required field. Document how you have verified that the expenditure cannot be reported to other donors.

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF funding', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
Expense # 1234, from 3-Jan for Four fences Invoice 123 from 1-Jan for \$100.	\$1,000	Yes, reviewed: Purchase request # 123 for \$1,000 for Fences Invoice # 456 from Acme Store for four fences for \$1,000 Purchase request # 789 for \$1,000 Check #012 for \$1,000 made to Acme Store Goods receipt #345 for Four fences	Agrees to activity Construction of fenced and shaded playground, item 1.5 Fencing.	Yes, Payment request was approved by the Finance Manager, Invoice and payment request signed by the Project manager. Check signed by Finance director and Office manager.	Yes, agreed to the download from the IP's system that makes up the FACE form amounts. Viewed check # 123 from 13-Jan for \$1,000 and agreed it to the January bank statement.	The invoice was coded to fund A123, which is the fund used to record UNICEF funded project – Construction of playground. The same fund # was used to record the transaction in the IP accounting system.			

6. Verify that the expense was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred. Through the review of the evidence already obtained, ensure that the expense was not incurred prior to the programme start or in a period before or after the reporting period on the FACE form. In this way, one can ensure that the expense is not reported on more than one FACE form.

Do not write only Y or N in the required field. Document how you have verified that the expenditure is reported in the correct period.

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
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7. Verify the price paid for goods or services against United Nations agreed standard rates and according to budget. Ensure that the expense is reasonable by comparing it to the rates agreed in the budget, by verifying that competitive bids were obtained and by using knowledge of local prices.

Do not write only Y or N in the required field. Document what evidence was obtained to ensure the expense is reasonable.

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
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Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
		Goods receipt #345 for Four fences		and Office manager.	bank statement.	accounting system.			

8. In the comment / finding field document any outstanding documentation or clarification issue and any potential findings.

Sample expenditure description and voucher number	Sample expenditure amount reported	Documentation exists to support expenditure in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the evidence reviewed	Activity is related to expenditure in accordance with work plan? (Y/N) – document the line item in the budget or work plan	Expenditure has been reviewed and approved in accordance with IP's applicable rules and procedures and agreements with the agency? (Y/N) – document the level of review and approval	Expenditure was reflected on a certified FACE form submitted to the agency and in IP's accounting records and bank statement? (Y/N)	Supporting documents are stamped 'PAID from UNICEF grant', indicating which agency funded the transaction or coded to and recorded in a UNICEF specific fund? (Y/N)	Expenditure was recorded in the IP's accounting records and reflected in a certified FACE form in the period in which it was incurred (Y/N)	Price paid for goods or services against United Nations agreed standard rates (if readily available) and according to budget	Comment / finding
Expense # 1234, from 3-Jan for Four fences Invoice 123 from 1-Jan for \$100.	\$1,000	Yes, reviewed: Purchase request # 123 for \$1,000 for Fences Invoice # 456 from Acme Store for four fences for \$1,000 Purchase request # 789 for \$1,000 Check #012 for \$1,000 made to Acme Store Goods receipt #345 for Four fences	Agrees to activity Construction of fenced and shaded playground, item 1.5 Fencing.	Yes, Payment request was approved by the Finance Manager, Invoice and payment request signed by the Project manager. Check signed by Finance director and Office manager.	Yes, agreed to the download from the IP's system that makes up the FACE form amounts. Viewed check # 123 from 13-Jan for \$1,000 and agreed it to the January bank statement.	The invoice was coded to fund A123, which is the fund used to record UNICEF funded project – Construction of playground. The same fund # was used to record the transaction in the IP accounting system.	Yes, the invoice and payment were incurred and recorded in January. The FACE form is for Jan-Mar.	Three competitive bids were evaluated Price is cheaper than the budgeted \$1,250.	No issues noted. IP to provide construction contract.

Specific Procedures Performed For Expenditures

Due to the nature of specific type of expenditures, additional procedures may be required in order to review them for eligibility. The list below includes the most common type of expenditures reported.

Procurement

1. Competitive offers were obtained as per the implementing IP's or the national policies
2. The offers were dated after the invitation to tender dated and before the date of award of the contract
3. The offers were evaluated based on a systematic approach (i.e. points system) and reviewed and approved by the appropriate level as per the IP's policy

The table below notes some common risks and red flags to watch for when reviewing procurement.

Risks	Red flags to watch for
<ul style="list-style-type: none">• Bidding documents and terms of reference may be skewed to match the unique qualities of one particular supplier• The quantity of goods or services needed may be exaggerated to favor a supplier with a particular capacity.• Bribery, kickbacks, collusion or coercion can distort the process of supplier selection, which should be made competitively and transparently according to price and quality. Such corruption can lead to above-market prices or substandard quality of goods and services.• A supplier may provide low quality, defective or fake supplies or poor services, but bill for specification-standard materials or work• Staff may be bribed by suppliers 'not to notice' the sub-specification execution of a contract, to accept	<ul style="list-style-type: none">• Specifications too narrow or precise, so that only one supplier can qualify• Subjective criteria for evaluating compliance with specifications• A contract split into multiple tenders just below the threshold for competitive bidding• Limited bid advertising• Multiple or repeat contracts going to the same supplier or group of suppliers• Bid deadlines that are unduly short; frequent justification of 'urgency' that may favor incumbent contractors• Unjustified requests for 'sole-sourcing'• Bids that are not sealed or are not opened publicly and simultaneously• Repeated awards to the same bidder or group of bidders• Contracts awarded to known friends or family of agency staff, or to companies where staff have a financial interest• Fees to intermediaries, agents or brokers for assistance in bid preparation or contract negotiation, which may be used for facilitation payments• Drastic changes in pricing from previous contracts

Risks	Red flags to watch for
fake goods as genuine or to sign off invoices for inferior work • Suppliers may introduce substantial changes to the quality specifications or prices in their contract via renegotiation or 'change orders', often in small increments that don't require management sign-off	• Unusual bid patterns that could indicate collusion among bidders • Repeat contract awards to the same supplier(s) or the lowest priced bidder being bypassed for a 'preferred' but costlier supplier • Unjustified change orders to a contract after award to increase amounts or modify specifications • Prices inflated substantially above market levels • The amount of goods or services delivered being less than requested

Cost allocations

1. Verify that there is a systematic approach to allocations of costs shared by various funding agencies with the IPs (ex. rent, utilities). The approach should be documented in the IP's policy manual.
2. Verify that the approach is consistently used to calculate the allocation amounts and is reasonable
3. Ensure that the total cost allocated do not exceed 100%

Payroll

1. Verify that the amount reported agrees to the payroll register
2. Verify that the amount reported agrees to the employee contract
3. If the employee is not fully working on the UNICEF funded programme, verify that the amount is calculated based on a systematic approach, such as time sheets for example.

Internal controls for payroll should ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursements are properly recorded and that related legal requirements (such as payroll tax deposits) are complied with.

Risks	Red flags to watch for
• Ghost workers' (fictitious or former employees whose wages are received by someone else) • Salary inflation with surpluses diverted • A staff member pocketing part of a team's cash wages	• Sudden unexplained increases in payroll numbers or cost • Salaries continuing to be paid to employees who have left the IP • Perfect attendance records for all/most employees • Similar signatures on pay receipts • Unusual items such as payments for vacations, removal costs or other benefits

Risks	Red flags to watch for
<ul style="list-style-type: none"> Loans or advances that aren't repaid or false claims for benefits or bonuses Much abuse takes place around benefits, e.g. allowances – per diems, transport, education 	<ul style="list-style-type: none"> Unexplained increases in salaries of staff, especially payroll staff

Other considerations

Headquarters' support costs

If the programme document (CSO IPs only) provides for Headquarters' support costs, there is no need to obtain invoices to support the amount claimed. As this amount is based on actual eligible expenditure, any adjustments related to eligibility of expenses claimed may result in the need to re-calculate the headquarters' support cost to determine the amount owing to UNICEF.

Segregation of duties

Segregation of duties is one of the fundamental internal controls for any organization. It is one of the key controls to reduce the risk of corruption. That is, one person should not handle a financial transaction from beginning to end.

When testing expenditures, look to determine whether basic segregation of duties have been respected - remember the "four-eyes principle" - at least two people must witness or approve any financial transaction.

Activities within a financial transaction that should be segregated			
Cash disbursement and petty cash	Authorizing payments	Handling cash/Issuing payments	Recording transactions
Procurement	Ordering goods	Receiving goods	
Payroll	Maintaining payroll records	Authorizing salary payments	

	Activity	When?	How long?	Where?	By who?
I.	Annual Planning	At the beginning of the year	Part of the OMP / AMP	UNICEF office	HACT Focal point / Section Chiefs
II.	Preparation	At least three days before field work	Half day	UNICEF office	Programme manager / Spot checker
III.	Field Work	Day of fieldwork	One day	IP's office	Spot checker
IV.	Follow-up	Varies in relation to issues identified	Half day to a day	UNICEF / IP office	Programme manager / Spot checker

ACTIVITY IV: DOCUMENTATION AND FOLLOW UP

Once the test of expenditures is completed the spot checker discusses any observations, outstanding items and issues with the IP, UNICEF's Programme Manager and the HACT Focal Point.

IV.1 Discuss the findings with IP's Management

The spot checker discusses the findings with the IP Management and documents their response and corrective actions. The spot check documentation is shared with the IP.

IV.2 Determine follow up actions and escalation

The findings are discussed with the UNICEF Programme Manager and HACT Focal Point and are assigned a "High" or "Low" priority. High priority findings and recommendations require follow up. A decision is made whether to escalate the spot check report.

IV.3 Adjust the HACT Plan

If the spot check included high priority observations, the HACT Focal Point flags the IP for follow up and adjust the HACT plan for additional spot checks or audits if required.

IV.1 Discuss findings and document corrective actions proposed by the IP's management

Once the test of expenses is complete, the results of the spot check are shared with the implementing partner. The spot checker discusses the observations, outstanding items and issues with the IP. The IP management can:

- Agree with the finding and provide corrective actions to be taken; or
- Agree to provide additional information to support the control or expense tested within a reasonable time, for example one week; or
- Disagree with the findings and provides detailed explanation on the reasons why they disagree.

The spot checker documents all detailed observations, IP management's response and any recommendations, agreed upon actions and their due dates in Annex C: Detailed Findings and Recommendations and summarizes in the Spot Check Report. (Annex B)

The Spot Check Report is shared with the IP.

IV.2 Determine follow up actions and escalation

After completing the spot check, the spot checker meets with the UNICEF Programme Officer responsible for the programme implementation and with the HACT Focal Point in order to discuss the findings, IP management responses and recommendations.

The group reviews each observation in order to determine the follow up actions and whether further escalation is required and assign “High” or “Low” priority for each finding and recommendation.

An observation is low priority if it does not indicate systematic break down of controls and weak financial management practices. Examples include:

- Several support documentations were photocopies and not originals;
- Support documentation could not be found for several low value transactions (lost by IP);
- A typing error or minor miscalculation;
- A purchase order was not approved, but the invoice and payment checks were;
- There was no competitive bidding process for a contract, however sole sourcing is documented and approved by senior management.

An observation is high priority if it indicates a systematic break down of controls and violation of the IP’s financial policies. Examples include:

- Lack of invoices or proof of payments for several expenses;
 - Documentation is not approved as per the IP’s policies;
 - Differences between the amounts recorded in the system report and the support documentation and payment amounts;
 - No calculation / support;
 - The invoice and payment amounts are significantly higher than the prevailing market rates.
- Low priority observations do not require follow up. The recommendations are documented in the spot check report and provided to the IP.

High priority observations require a follow up by the UNICEF Programme Manager. Depending on the finding the follow up can be:

- Request a refund of the ineligible expenses;
- Request the IP to review and correct the reporting;
- Conduct a follow-up spot check in the next quarters to ensure recommendations have been implemented;
- Request the IP to implement the activities and incur the expense for the incorrectly reported amounts;
- Conduct additional spot checks on previous FACE form, commission an audit for the whole programme period or commission a special audit on specific area of concern;
- Consider changes to the programme.

If there is a suspect misuse of funds, the spot checker discusses the spot check report with the Head of Office, who notifies OIAI with a copy to the Regional Director for advice and next steps

Example

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that while the expense reported on the FACE form and in the system is reasonable and comparable to the approved budget in the ICE, there is no support documentation to back up the amount charged.

The spot checker discusses the observation with the IP management, who states that they could not obtain receipts for fuel purchases and therefore calculated the expense on a spreadsheet by confirmation from the drivers.

The spot checker determines that the explanation is reasonable, due to the cash based economy and operational environment in the country, where receipts for small purchases are not typically given.

The spot checker proposed to the IP management to implement a vehicle usage log and provides as an example the template used by UNICEF field office. By doing this, the UNICEF office improves IP's capacity in financial management.

The IP agrees to implement the vehicle usage log and use it to calculate the fuel cost and vehicle charges.

Example 2

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that there is no support documentation to back up the amount charged and that the IP has included DSA allowance in the actual expense when travel is only for short distances within the city

The spot checker discusses the observation with the IP management, who states that they could not obtain receipts for fuel purchases and therefore calculated the expense based on the approved budgeted amount. They also state that they were not aware that DSA allowance is not permitted for day travel.

The spot checker determines that the explanation is not reasonable, because receipts are available from petrol station and as per the IP's DSA allowance is given only on overnight travel outside of the city.

The spot checker informs the IP management that the expense will be deemed ineligible and that the IP will have to issue a refund for the total amount of fuel costs and vehicle charges for the quarter.

The IP agrees to have support for all fuel charges in the next quarter and not to include DSA allowance. The spot checker documents the finding, recommendation and agreed actions in the spot check report.

Example 3

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that the IP has reported the same amount for fuel expense, which is not typical. The provided receipts have the same document number. The programmatic visit report states that beneficiaries indicate that there has been no official visit by IP staff to the implementation location.

In addition to the fuel cost observations, the spot check noticed that an invoice for computer purchase (\$5,000) was not in the name of the IP, but to an individual and some amounts have been changed by pen on a few cheques.

The spot checker discusses the findings with the IP management, who states that the poor quality of documentation is because of the quality of vendors and that they have provided all required documentation. .

The spot checker documents the findings and discusses them with the HACT Focal Point and the UNICEF Programme Manager. During discussion, it was noted that the IP has not been implementing the activities as scheduled and the expenses recorded do not correspond to the programme implementation status.

The summary of observations is discussed internally with the Section Chief, Chief of Operations and Deputy Representative. It is determined that the risk exists that the IP may be claiming expenses not supported by documents and concerns over the repeated changes to cheques. The total budget in the PCA with the IP is very large

Follow-up on issues identified is the responsibility of the UNICEF Programme Officer managing the relationship with the IP. While other UNICEF staff may play a supporting role, the Programme Officer is ultimately responsible for follow-up.

Most issues identified can be resolved directly with the IP either through requesting refunds or ensuring the IP takes action on recommendations made to strengthen internal controls. However, when offices suspect that the IP is systematically claiming ineligible expenses OIAI is consulted for support and advice.

IV.3 Update the HACT plan

Once the spot check is completed and documentation is finalized, the HACT Focal Point:

- Ensures that the spot check is archived in a central document repository;
- Updates the HACT Plan for the completed spot check;
- If the spot check report includes high priority findings, flags the spot check for follow up; and
- If a decision is made to conduct additional spot checks or audits, updates the plan for the respective assurance activities.

Spot Check Guidance Annexes

Annex A – Spot Check Checklist



Annex A Spot
Check Checklist.doc

Annex B – Spot Check Report



Annex B Spot
Check Report.docx

Annex C – Test of Expenditures Worksheet (in MS Word and MS Excel formats)



Annex C Test of
Expenditures Works



Annex C Test of
Expenditures Works

Annex D – Detailed Findings and Recommendations



Annex D Detailed
Findings and Recon

Appendix III: UNFPA Spot Check Guidance

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SUMMARY

Background

The UNDG HACT Framework (2014) defines spots checks as:

Periodic on-site reviews (...) performed to assess the accuracy of the financial records for cash transfers to the IP and the status of programme implementation (through a review of financial information), and to determine whether there have been any significant changes to internal controls. The spot check is not an audit.” (para 9.17).

Purpose

The purpose of this guidance is to:

4. Assist UNFPA staff to understand the spot check process;
5. Provide a standard approach to work steps undertaken during a spot check; and
6. Provide a standard approach to documentation and follow up of findings.

Use of this Guidance

This guidance is for the UNFPA Headquarters Units, Regional and Country Office HACT focal points and for staff conducting spot checks.

The use of this guidance and attached templates is mandatory. However, if UNFPA offices need to customize the testing procedures and the attached templates based on the specific programme details and operating environment, they should send a request to the UNFPA Quality Management Unit (qmu.group@unfpa.org). In any case, customized testing procedures need to follow the main activities in the spot check process as described in the following paragraph.

This guidance is part of UNFPA's IP Assurance Guidance which has details on assurance planning, including spot checks, the reporting of spot checks and follow up to spot check findings in UNFPA's data management system.

Scope of a spot check for UNFPA

Each spot check reviews the last 12 months of implementation – as applicable. Offices schedule a month in which the spot-check takes place and sample transactions from the preceding 4 FACE forms or up to the last month that was covered by a previous spot check or audit.

Spot Check Process

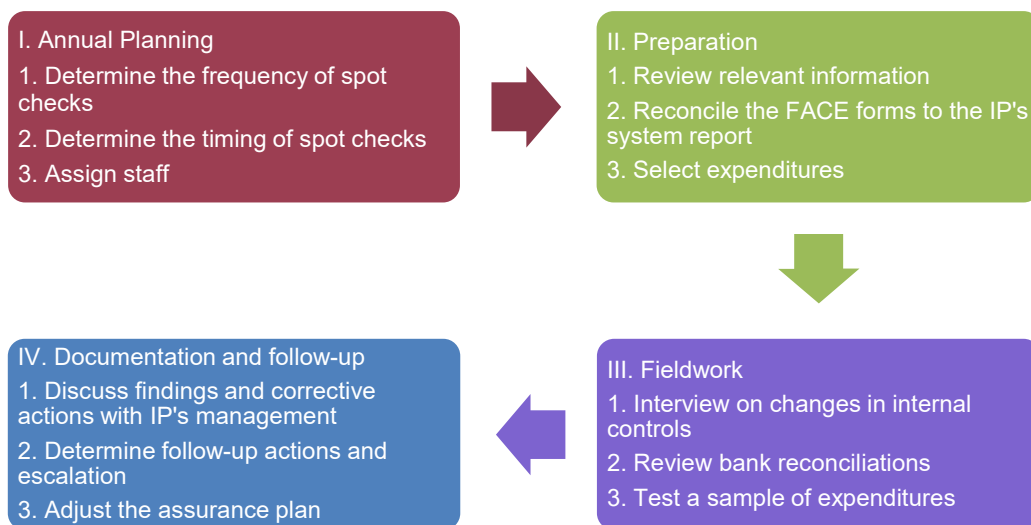
The spot check process consists of four activities. The table below summarizes the main timeframe and responsibilities.

	Activity	When?	How long? ³	Where?	By who?
I.	Annual Planning	At the beginning of the year	Part of the OMP	UNFPA office	HACT focal point / Programme manager
II.	Preparation	At least three days before field work	Half day	UNFPA office	Programme manager / Spot checker
III.	Field Work	Day of fieldwork	One day	IP's office	Spot checker
IV.	Follow-up	Varies in relation to issues identified	Half day to a day	UNFPA / IP office	Programme manager / Spot checker

Structure of this Guidance

The Spot Check Guidance consists of four sections, each one providing a summary of the main activities and detailed steps to complete each activity.

³ Time estimation is indicative and vary depending on several elements, including but not limited to: the IP location; the risk level of the IP and the reliability of the IP controls; the findings arisen during previous assurance activities, the complexity and materiality of programme activities in the period under review, the composition and experience of the spot check team, etc.



Templates are included as annexes:

5. Annex A: Spot Check Checklist (for internal use, no submission in IPAS required)

6. Annex B: Spot Check Report with findings & recommendations
7. Annex C: Testing of Expenditure Worksheet

The spot check process begins with the preparation of the annual assurance plan and assigning staff to conduct spot checks.

ACTIVITY I: ANNUAL PLANNING

UNFPA offices establish the timing, frequency and staff assigned to conduct spot checks at the beginning of the year in the assurance plan. This entails the following three steps:

1. Determine the frequency of spot checks
2. Determine the timing of the spot checks
3. Assign staff to perform the spot checks

I.1 Determine the frequency of spot checks

The frequency of spot checks is determined based on the risk rating of the IP as established by the micro assessment and the planned cash transfer amount for the year.

As a general principle,

the minimum spot check requirement for all IPs receiving UNFPA funds above an annually determined amount is **one** spot-check per year. For the year in which the IP is audited, a spot check is strongly recommended but not mandatory and can be replaced by the pre-audit preparation exercise.

The UNFPA offices may increase the frequency based on the operating context and knowledge of the IP. However, UNFPA offices should consider a balanced approach between risk, cost and value add of additional spot checks, including whether there is internal capacity to undertake additional spot checks – be realistic.

Remote spot checking

By definition, spot checks imply the conduct of an on-site visit. If it is impossible or impractical to conduct an on-site review, and only in that case, the business unit can choose to conduct remote spot checks.

Typical reasons that justify remote spot checks include the following cases:

- a) IP based in a non-programme country where UNFPA does not have an office;
- b) IP's premises not accessible for security reasons.

Any other request for remote spot checks that do not fall in the two cases above needs to be approved by the Quality Management Unit.

If the remote spot check option is used, this guidance remains valid in all its aspects with the only difference that meetings and interviews will be conducted remotely through telephone or video-conference and that supporting documentation will be shared electronically.

I.2 Determine the timing of spot checks

Prioritize

Once the frequency of spot checks has been determined, the UNFPA office has to determine when the spot checks will take place.

Priority should be given to spot checks planned for IPs for which:

- Larger amount of cash transfer is planned;⁴
- The UNFPA office has no prior experience;
- No prior financial assurance activities were conducted (prior spot checks or audits);
- Previous assurance activities (programmatic visits, spot checks or audits) identified significant deficiencies in the internal controls or programme implementation;
- Other considerations resulted in increased risk for UNFPA to work with a particular IP.

Monitor on quarterly basis

- Begin doing spot checks earlier in the fiscal year;
- Monitor the progress of actual performed versus planned spot checks on a quarterly basis;
- Adjust the assurance plan quarterly for spot checks planned but not completed by rescheduling them for the following quarters.

Failure to do so can result in an unrealistic number of spot checks that have to be completed in the last quarter! It also represents failure to proactively identify an IP's poor financial management and reporting practices so to jointly implement timely corrective actions.

Schedule the spot check

- The actual programme expenditures reported in the last quarter of the year can only be spot checked in the following year.
- Spot checks performed in quarter one of the following year should cover the four quarters of the previous year and should be performed as early as possible (and, consistently with audits, before financial closure) for financial reporting purposes.
- The actual date that the spot check will be performed should be agreed in advance with the IP taking into consideration the availability of qualified UNFPA staff and the availability of the IP staff and management.
- As a general rule, give at least one week lead time for the IP to prepare all required documentation.

I.3 Assign staff to perform the spot check

Each UNFPA office determines whether qualified internal staff or external service providers (or a combination of both) undertake spot checks.

⁴ If the period covered by the spot check spans over two financial years (= all spot checks performed in quarter 2, quarter 3 and quarter 4), give priority to IPs with larger expenditures in the current financial year

If a decision is made that internal staff will be conducting spot checks, the UNFPA office must ensure that the staff performing the spot checks possess a minimum of 5 years' experience in financial management, knowledge of UNFPA-supported programmes, the programming context, the interagency HACT Framework and the terms of reference of spot checks.

Required experience in financial management may be replaced by documented on the job training, regular coaching and supervision by qualified UNFPA staff or quality assurance by an external service provider. The Head of Office determines whether staff is qualified to undertake spot checks. UNFPA offices may also contact other UNFPA offices for assistance in carrying out spot checks.

If the spot check is performed by external service providers, the business unit can use this opportunity to strengthen internal capacity by agreeing with the external provider that UNFPA staff participate in the spot check.

The objective of this shadowing exercise is to observe and learn how this guidance is put in practice. UNFPA staff should place particular attention to the areas that require professional judgement, such as:

1. the internal control interview;
2. the sampling of transactions;
3. the assessment of the adequacy of the supporting evidence provided by the IP;
4. the assessment of the findings. In particular:
 - a) assign rating (low or high priority)
 - b) determine if the finding leads to expenditures to be deemed unsupported and their quantification

In order to be effective, UNFPA staff member should ask questions when he/she is not clear on the purpose of the verification procedures or the rationale behind decisions based on professional judgement. Staff member should also take notes and document the exercise.

Example

A relatively newly hired programme assistant, Maureen, does not have five years experience in financial management. During the past year, Maureen has received excellent performance reviews and has demonstrated an understanding of HACT, the IP Procedure requirements, IP budgeting and IP reporting processes. She has assisted the UNFPA programme manager in reviewing the FACE forms and pointed out discrepancies. The Deputy Representative nominates Maureen for the spot checker roster.

The UNFPA office implements the following training plan:

- The HACT focal point provides Maureen with a training on the spot check guidance;
- Maureen is paired with a qualified experienced staff to conduct two spot checks:
 - During the first spot check she is observing and assisting the experienced staff;
 - During the second spot check she is leading the spot check and the experienced staff is observing and providing guidance;
- Maureen conducts a third spot check on her own and a qualified experienced staff reviews in detail her report and working papers by.

If the quality of the working papers and findings are satisfactory, Maureen will be placed on the spot checker roster. If not, further coaching and supervision is provided to Maureen and the UNFPA office reconsiders whether she will be able to conduct spot checks.

UNFPA offices should periodically review a sample of spot check reports in order to ensure quality of the documentation and findings. The review should be performed by someone who was not involved in the original spot check. This exercise may also be used as a capacity building opportunity for internal staff, by identifying knowledge gaps and training opportunities.

This review must be documented and endorsed by the Head of Office.

Attention

In order to prevent conflict of interest and self-review, UNFPA staff are not permitted to conduct spot checks alone on those programmes for which they have been involved in reviewing the FACE forms submitted by the IP. For example, if a Programme Assistant working on the SRH programme section is qualified to conduct spot checks, s/he may not conduct spot checks on those programmes but on other programmes such as GBV, Youth etc.

However, it may be beneficial that programme staff responsible for the IP in question is part of the spot check team for the following reasons:

- Relationship with the IP
- Knowledge of the programme
- Effective cross-checking of financial information with programme implementation

In such situations segregation of duties risk is mitigated if

- Another team-member is involved in the spot check and reviews the work performed by the programme staff.
- Another team-member reviews in detail the work performed by the programme staff after completion of the spot check.

Attention

Staff that meet or exceed the 5 years' experience in finance and accounting still need to have knowledge of the UNFPA programme and programming context. For new staff or existing UNFPA financial staff with limited exposure to programming, this knowledge is often best gained through being accompanied on initial spot checks with programme staff.

Tip

Offices may find that they have staff that do not meet the experience requirements but have potential to undertake spot checks. In such situations, the office can put in place an approach of more extensive on-the-job training, supervision (through regular review of working papers and reports) and coaching by an experienced spot checker meeting the minimum experience requirements.

ACTIVITY II: SPOT CHECK PREPARATION

A spot check covers expenditures for a 12 months period or the period since the last spot-check or audit if shorter.⁵ It means that it is usually conducted on **four** FACE forms - the most recent FACE reporting actual programme expenditures and the previous three FACE forms.

In order to conduct an effective spot check, the staff or team conducting the spot check (referred to henceforth as “spot checker”) familiarizes themselves with the programme and related FACE forms and make a selection of transactions to test.

It is advised that preparation take place a week before the spot check so that the UNFPA office can provide the sample selection to the IP in order to allow the IP to provide all required support documentation at the time of fieldwork. Spot-check preparation is completed in the following three steps:

1. Review relevant information
2. Reconcile the FACE forms to the IP's system report
3. Make a selection of expenditures to test

II.1: Review relevant information

In preparation for the spot check, the spot checker responsible to conduct the spot check should review the following documents:

⁵ This is the case if the IP has been audited in the previous financial year or if a spot check was conducted in the previous 12 months. Example:

Spot check conducted on 25 July 2017 covering expenditures recorded up to 30 June 2017:

Previous assurance	Scope
IP not audited in 2016 and no spot checks conducted in the last 12 months	1 Jul. 2016 - 30 Jun. 2017
IP audited in Q1 2017 covering expenditures incurred 1 Jan. – 31 Dec. 2016	1 Jan. 2017 - 30 Jun. 2017
IP spot checked in Q2 2017 covering expenditures incurred up to 31 Mar. 2017	1 Apr. 2017 - 30 Jun. 2017

Document	Objective
Programme document / work plan	To become familiar with the programme background and approved activities
Micro assessment report	To become familiar with IP processes and understand the high priority observations and recommendations. During the interview, the spot checker should inquire whether the IP has implemented the high priority recommendations flagged for follow up, assess them and obtain evidence.
Latest programmatic visits and progress reports	To understand what activities took place as well as challenges in implementation
The FACE forms requesting funding with the accompanying detailed budget sheets (if any) and the FACE forms reporting the actual programme expenditures	To understand the activities and inputs which were authorized
Previous spot check or audit reports	To identify the high priority observations and recommendations. During the spot check, the spot checker should inquire whether the IP has implemented the recommendation and verify it through the testing procedure.

The spot checker should discuss with the UNFPA programme manager any concerns regarding the IP's financial management and internal controls.

II.2: Reconcile the face forms to the IP's system report

After reviewing the relevant information, the UNFPA programme manager contacts the IP to inform them of the upcoming spot check and agree on the date of the spot check. He or she requests the detailed transactions that support the actual programme expenditure reported on the FACE forms.

Tip

Spot checks are performed on FACE forms that report the use of cash transfers. (advance liquidation; requested reimbursement of expenditures; or requested direct payment to the vendor). While not required (nor typical), an office may decide to conduct the spot check prior to liquidation, reimbursement or direct payment for a specific IP. Offices may decide to take this exceptional approach in cases where: the IP is new and a micro assessment has not yet been conducted; or where previous assurance activities have identified significant internal control deficiencies or failure to obtain assurance on the programme expenditures reported.

Once the IP has provided the detailed transaction list, it is important to reconcile the report to the FACE forms to be tested by:

4. Ensuring that the dates on the system report correspond to the reporting period on the FACE forms. For example, if the FACE form is reporting actual expenditures for Q1, the dates on the system report should be 1 January 20XX to 31 March 20XX. If there are transactions conducted outside of the reporting period, they are deemed ineligible unless the IP can prove that they have not been and will not be reported on another FACE form.
5. Ensuring that the total amount of transactions on the report is equal to the total amount on the FACE form. If the amount on the report is smaller, the difference is deemed ineligible and a refund is required. If the amount is higher, the IP has to explain why the expenditures were not reported on the FACE form.
6. The subtotal by activity in the report must match the total amount for each activity reported on the FACE form. If the amount on the report is smaller, the difference is deemed ineligible and a refund is required. If the amount is higher, the IP has to explain why the expenditures were not reported on the FACE form.

Attention

It is possible that the total expenditures recorded in the system report exceed the amounts reported on the FACE form if:

- The IP is contributing financial resources to the programme and / or
- The IP is receiving funding from multiple donors for the same programme

AND

- The IP's accounting system is not set up for fund accounting.

In this situation, the spot checker should pay particular attention to verifying that original invoices are stamped as "PAID from UNFPA" (see relevant step in the Annex C – Test of expenditures) in order to ensure that the expenditure was properly reported on the FACE form.

After reconciliation with the IP system report, the FACE form should also be reconciled with expenditures contained in the CDR for monitoring report.

II.3: Make a selection of expenditures to test

Not all amounts reported by an IP are tested during a spot check. The exact coverage (the amount of the items selected for testing compared to the total amount reported on the FACE forms) cannot be prescribed due to the differences in programmes and the nature of their expenditures. The goal should be to obtain coverage of at least 15% of the actual expenditure reported on the FACE forms (this minimum requirement is increased proportionally when the spot check covers less than 12 months).

The selection of expenditures should be done using a risk-based approach using the following rules:

- Select at least one transaction from each expense category that is cumulatively equal to or exceeds 10% of the actual expenditures reported on the FACE form.
- Focus on larger valued items, but also include some smaller valued items.
- Select unusual or high risk items, including, but not limited to:
 - Description of the expenditure is not appropriate for the expense category in which it is included;
 - Description of the expenditure is not appropriate for the activity or the work plan;
 - Description of the expenditure is general or vague or there is no description at all;
 - Date on which the expenditure was incurred or reported is not appropriate for the reporting period on the FACE form;
 - The amount of the expenditure is unusual for the type of expenditure (round number or large number);
 - The same expenditure and amount is recorded multiple times.

Using a risk-based approach allows the spot checker to conduct the spot check as efficiently and effectively as possible, benefiting both the UNFPA team and the IP. It focuses attention on identifying and testing those expenditures that have the potential to materially affect the report of actual programme expenditures.

Attention

During the sample selection it is important to document:

- The source for the sample selection (for example, download from the IP's accounting system)
- Expense categories and transactions selected
- Coverage obtained

Example

For the programme implementation period under review (Jan.-Dec.), an IP submitted FACE forms reporting on funds utilization as follow:

Activity	Authorized Amount	Actual Project Expenditures
GBV prevention in refugee camps	\$40,000	\$37,720

The IP provided the following support for the actual project expenditures reported on the FACE forms, in the form of a download from their accounting system:

Category of Expenditure	Actual expenditures
Personnel (salaries and wages)	6,300
Travel	150
Consultation	4,100
Hygiene kits	14,700
Materials	11,300
Consumables	420
Training	750
<i>Total activity costs</i>	<i>\$37,720</i>

At least one transaction is selected from each expense category that equals or exceeds 10% (\$3,772) of the programme expenditures. Therefore, expenditures selected for testing are:

- Personnel (salaries and wages)
- Consultation
- Hygiene Kits
- Materials

Example (continued):

The category, Materials, included the following detailed transactions:

Record #	Date	Description	Amount
7305	26-Dec	Tarps	2,678
7309	05-Feb.	Fixtures	175
7310	10-Mar.	Toilet stalls	3,335
7331	12-May	Water tank	2,000
7333	17-Jun.	Lighting	415
7336	05-Sep.		735
7337	11-Oct.	Toilettes	1,215
7340	15-Dec.	Computer	747
Total:			\$11,300

Using a risk- based approach, the following transactions are selected:

- 7305 – The expenditure is recorded before the programme has started – in December
- 7310 – This is the largest expenditure
- 7331 – The amount of the expenditure is a round number, which is not typical of a procurement transaction
- 7336 – There is no description of this expenditure
- 7340 – Computer is not related to the expenditure category or to the programme activity

ACTIVITY III: FIELD WORK

Testing procedures are performed at the IP's location where the books and records for the programme are maintained. Fieldwork is generally conducted within one day and involves three steps:

1. Interview on changes in internal controls
2. Review bank reconciliations
3. Test a sample of expenditures

III.1 Interview on changes in internal controls

In order to determine if there have been any significant changes to the internal controls applicable for the IP, the spot checker should:

- Conduct an interview with the finance and programme management of the IP to understand if they have implemented any high priority recommendations from the micro assessment and previous assurance activities if any. Obtain evidence during the expenditure testing.
- Inquire with management (and obtain evidence) if there have been any changes in the organization, including:
 - Changes in the organization structure and key programme or finance management positions;
 - Changes to the internal policies or procedures;
 - Changes to the financial management processes;
 - Changes in the accounting or reporting systems.
- Determine if any of the changes increase the risk of successful and timely programme implementation or the accuracy of the financial reporting of the IP. Compare results with original micro-assessment records.
- Document the changes in the Annex B: Spot Check Report.

Example

A previous spot check identified that while the IP was using fund accounting, invoices were not stamped or marked as to which source of funding was used to pay the invoice. (For example, "Paid by UNFPA, Project ID, Fund Code). The spot check report recommended for the IP to start this practice.

Prior to undertaking testing of expenditures during the current spot check, the UNFPA spot check team discussed with management whether the recommendation was implemented. Management confirmed that it had and explained that they are writing the source of funding in ink on each invoice.

	Procedure	Findings
1	Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle. Document any changes identified.	Management stated that previous recommendation was implemented and all sources of funding have to be written in ink on the invoice specifying funding agency and specific Project ID. The testing of expenditures provided evidence that this control was implemented and noted no exceptions.

III.2 Review bank reconciliations

While there is no specific requirement, some IP will deposit funds received from UNFPA into a separate bank account. In this situation, confirm that a bank reconciliation was completed and that the balance has been reconciled to the accounting records / system report obtained for the spot check period. Observe and inquire on any unusual reconciling items.

III.3 Test a sample of expenditures

Prior to testing, request an explanation from the IP management how they determine what expenditures are charged to the UNFPA project. This will allow you to see if the IP's internal procedures were followed.

For each transaction selected, perform and document testing procedures using Annex C: Testing of Expenditure Worksheet.

Specific Procedures Performed for Expenditures

Due to the nature of specific type of expenditures, additional procedures may be required in order to review them for eligibility. The list below includes some common types of expenditures reported.

Procurement

4. Competitive offers were obtained as per the implementing IP's, the national policies or UNFPA's procedures in accordance with IP agreement.
5. Sufficient lead-time was given to advertising the bid.
6. The offers were dated after the invitation to tender dates and before the date of award of the contract.
7. The offers were evaluated based on a systematic approach (i.e. points system) and reviewed and approved by the appropriate level as per the IP's policy.

The table below notes some common risks and red flags to watch for when reviewing procurement.

Risks	Red flags to watch for
<ul style="list-style-type: none">• Bidding documents and terms of reference may be skewed to match the unique qualities of one particular supplier• The quantity of goods or services needed may be exaggerated to favor a supplier with a particular capacity.• Bribery, kickbacks, collusion or coercion can distort the process of supplier selection, which should be made competitively and transparently	<ul style="list-style-type: none">• Specifications too narrow or precise, so that only one supplier can qualify• Subjective criteria for evaluating compliance with specifications• A contract split into multiple tenders just below the threshold for competitive bidding• Limited bid advertising• Multiple or repeat contracts going to the same supplier or group of suppliers

<p>according to price and quality. Such corruption can lead to above-market prices or substandard quality of goods and services.</p> <ul style="list-style-type: none"> • A supplier may provide low quality, defective or fake supplies or poor services, but bill for specification-standard materials or work • Staff may be bribed by suppliers 'not to notice' the sub-specification execution of a contract, to accept fake goods as genuine or to sign off invoices for inferior work • Suppliers may introduce substantial changes to the quality specifications or prices in their contract via renegotiation or 'change orders', often in small increments that don't require management sign-off • Fake bids/vendors are used to justify competitive bidding 	<ul style="list-style-type: none"> • Bid deadlines that are unduly short; frequent justification of 'urgency' that may favor incumbent contractors • Unjustified requests for 'sole-sourcing' • Bids that are not sealed or are not opened publicly and simultaneously • Repeated awards to the same bidder or group of bidders • Contracts awarded to known friends or family of agency staff, or to companies where staff have a financial interest • Fees to intermediaries, agents or brokers for assistance in bid preparation or contract negotiation, which may be used for facilitation payments • Drastic changes in pricing from previous contracts • Unusual bid patterns that could indicate collusion among bidders • Repeat contract awards to the same supplier(s) or the lowest priced bidder being bypassed for a 'preferred' but costlier supplier • Unjustified change orders to a contract after award to increase amounts or modify specifications • Prices inflated substantially above market levels • The amount of goods or services delivered being less than requested • Bid documents do not appear genuine, are not printed on the official vendor paper and not stamped (plain Microsoft word document) • Invoices do not appear genuine and are not in line with local legislation and practice • Pricing is not in line with local market rates
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Professional scepticism should be used when above red flags are identified and the spot checker may decide to perform additional research on the bidders. Example of these procedures are the following: (i) perform internet search or phone calls to verify the identity of the vendor; (ii) call the losers of the bid to ascertain that they actually provided the quote documented in the bid and receive any comment they may have on the way the bidding process was conducted.

Apportioned Costs

4. Verify that there is a systematic cost accounting approach to apportionment of costs shared by various funding agencies with the IPs (ex. rent, utilities). The approach should be documented in the IP's policy manual and accounting system.
5. Verify that the approach is consistently used to calculate the apportioned amounts.
6. Ensure that the total cost allocated does not exceed 100%.

Payroll

4. Verify that the amount reported agrees to the payroll register
5. Verify that the amount reported agrees to the employee contract
6. Verify that payments were received by the appropriate individual
7. Number and ToR of employees and payroll rates are consistent with work programme activity and related budget.
8. If the employee is not fully working on the UNFPA funded programme, verify that the amount is calculated based on a systematic approach.

Internal controls for payroll should ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursements are properly recorded and that related legal requirements (such as payroll tax deposits) are complied with.

Risks	Red flags to watch for
<ul style="list-style-type: none">• Ghost workers' (fictitious or former employees whose wages are received by someone else)• Salary inflation with surpluses diverted• A staff member pocketing part of a team's cash wages• Loans or advances that aren't repaid or false claims for benefits or bonuses• Much abuse takes place around benefits, e.g. allowances – per diems, transport, education	<ul style="list-style-type: none">• Sudden unexplained increases in payroll numbers or cost• Salaries continuing to be paid to employees who have left the IP• Perfect attendance records for all/most employees• Similar signatures on pay receipts• Unusual items such as payments for vacations, removal costs or other benefits• Unexplained increases in salaries of staff, especially payroll staff

Other considerations

IP support costs

If the Work Plan (NGO IPs only) provides for IP support costs, there is no need to obtain invoices to support the amount claimed. As this amount is based on actual eligible expenditures, any adjustments related to eligibility of expenditures claimed may result in the need to re-calculate the IP support cost to determine the amount that the IP owes UNFPA.

Segregation of duties

Segregation of duties is one of the fundamental internal controls for any organization. It is one of the key controls to reduce the risk of corruption. That is, one person should not handle a financial transaction from beginning to end.

When testing expenditures, look to determine whether basic segregation of duties have been respected - remember the “four-eyes principle” - at least two people must witness or approve any financial transaction.

Activities within a financial transaction that should be segregated			
Cash disbursement and petty cash	Authorizing payments	Handling cash/Issuing payments	Recording transactions
Procurement	Ordering goods	Receiving goods	
Payroll	Maintaining payroll records	Authorizing salary payments	

Use of Goods/Assets/Services

Before the visit to the IP location, the spot checker should verify with the Programme Manager in UNFPA for the particular IP the detailed purposes for which any goods, assets or services were purchased. On location, the spot checker will verify through interviews with IP staff, observation and review of documentary evidence, that they are actually used as intended.

Unsupported expenditures

The spot checker should determine which findings will result in the ineligibility of the related expenditures. The criteria to make such determination are the same criteria that would have determined the rejection of the expenditure in the original FACE form if the finding had been known at the time the business unit reviewed and approved the FACE form.

ACTIVITY IV: DOCUMENTATION AND FOLLOW UP

Once the test of expenditures is completed, the spot checker discusses any observations, outstanding items and issues with the IP, UNFPA programme manager and the HACT focal point following these three steps:

1. Discuss the findings with IP's management
2. Determine follow up actions and escalation
3. Adjust the Assurance Plan

IV.1 Discuss findings and document corrective actions proposed by the IP's management

Once the test of expenditures is complete, the results of the spot check are shared with the implementing partner. The spot checker discusses the observations, outstanding items and issues with the IP. The IP management can:

- Agree with the finding and provide corrective actions to be taken; or
- Agree to provide additional information to support the control or expenditure tested within a reasonable time, for example one week; or
- Disagree with the findings and provides detailed explanation on the reasons why they disagree.

The spot checker documents all detailed observations, IP management's response and any recommendations, agreed upon actions and their due dates in Annex B: Spot Check Report.

The Spot Check Report is shared with the IP.

IV.2 Determine follow up actions and escalation

After completing the spot check, the spot checker meets with the UNFPA programme officer responsible for the programme implementation and with the HACT focal point in order to discuss the findings, IP management responses and recommendations.

The group reviews each observation in order to determine the follow up actions and whether further escalation is required and assign “High” or “Low” priority for each finding and recommendation.

An observation is low priority if it does not indicate systematic break down of controls and weak financial management practices. Examples include:

- Some supporting documents were photocopies and not originals;
- Support documentation could not be found for low value transactions (lost by IP);
- A purchase order was not approved, but the invoice and payment checks were;
- There was no competitive bidding process for a contract, however sole sourcing is justified, documented and approved by senior management.

An observation is high priority if it indicates a systematic break down of controls and violation of the IP’s financial policies. Examples include:

- Lack of invoices or proof of payments for several or high value transactions;
- Documentation is not approved as per the IP’s policies;
- Differences between the amounts recorded in the system report and the support documentation and payment amounts;
- No calculation;
- The invoice and payment amounts are significantly higher than the prevailing market rates.

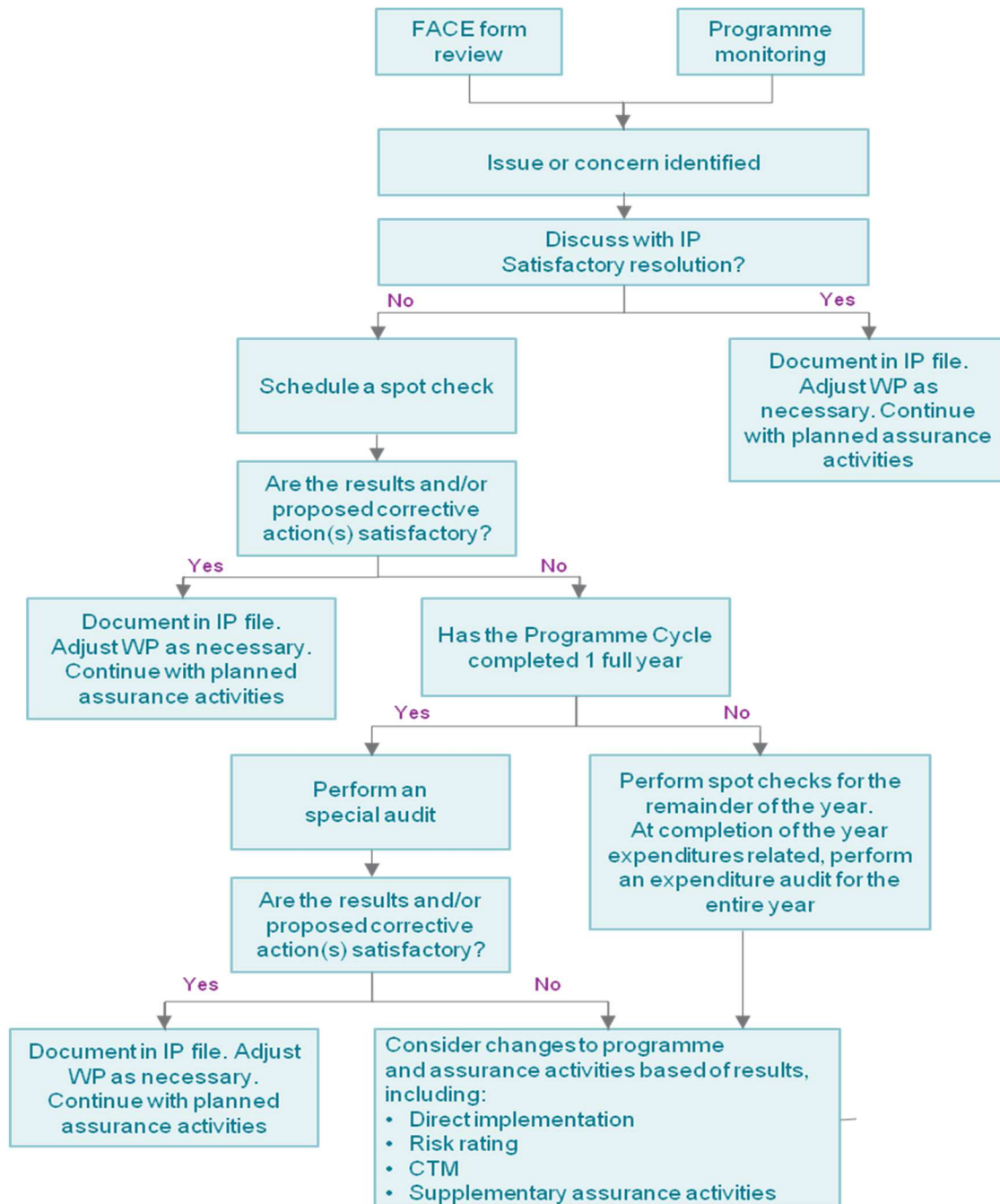
Low priority observations do not require follow up. The recommendations are documented in the spot check report and provided to the IP.

High priority observations require a follow up by the UNFPA programme manager. Depending on the finding the follow up can be:

- Request a refund of the ineligible expenditures;
- Request the IP to review and correct the reporting;
- Conduct a follow-up spot check in the next quarters to ensure recommendations have been implemented;
- Request the IP to implement the activities and incur the expenditure for the incorrectly reported amounts;
- Commission an audit for the whole programme period or commission a special audit on specific area of concern;
- Consider changes to the programme.

If there is a suspect misuse of funds, the spot checker discusses the spot check report with the Head of Office, who notifies the Office for Audit and Investigation Services (OAIS) with a copy to the Regional Director for advice and next steps.

The process of escalation of spot check findings is illustrated in figure 2 in the next page.



Example

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that while the expenditure reported on the FACE form and in the system is reasonable and comparable to the approved budget, there is no supporting documentation to back up the amount charged.

The spot checker discusses the observation with the IP management, who states that they could not obtain receipts for fuel purchases and therefore calculated the expenditure on a spreadsheet based on confirmation from the drivers.

The spot checker determines that the explanation is reasonable, due to the cash based economy and operational environment in the country, where receipts for small purchases are not typically given.

The spot checker proposed to the IP management to implement a vehicle usage log and provides as an example the template used by UNFPA field office. By doing this, the UNFPA office improves IP's capacity in financial management.

The IP agrees to implement the vehicle usage log and use it to calculate the fuel cost and vehicle charges.

Example 2

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that there is no supporting documentation to back up the amount charged and that the IP has included DSA allowance in the actual expenditure when travel is only for short distances within the city

The spot checker discusses the observation with the IP management, who states that they could not obtain receipts for fuel purchases and therefore calculated the expenditure based on the approved budgeted amount. They also state that they were not aware that DSA allowance is not permitted for day travel.

The spot checker determines that the explanation is not reasonable, because receipts are available from petrol station and as per the IP's DSA allowance is given only on overnight travel outside of the city.

The spot checker informs the IP management that the expenditure will be deemed ineligible and that the IP will have to issue a refund for the total amount of fuel costs and vehicle charges for the quarter.

The IP agrees to refund the unsupported expenditures, keep supporting documentation for all fuel charges in the next quarter and not to include DSA allowance. The spot checker documents the finding, recommendation and agreed actions in the spot check report.

Example 3

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that the IP has reported the same amount for fuel expenditure, which is not typical. The provided receipts have the same document number. The programmatic visit report states that beneficiaries indicate that there has been no official visit by IP staff to the implementation location.

In addition to the fuel cost observations, the spot check noticed that an invoice for computer purchase (\$5,000) was not in the name of the IP, but to an individual and some amounts have been changed by pen on a few cheques.

The spot checker discusses the findings with the IP management, who states that the poor quality of documentation is because of the quality of vendors and that they have provided all required documentation. .

The spot checker documents the findings and discusses them with the HACT focal point and the UNFPA programme manager. During discussion, it was noted that the IP has not implemented the activities as scheduled and the expenditures recorded do not correspond to the programme implementation status.

The summary of observations is discussed internally with the Chief of Operations and Deputy Representative. It is determined that the risk exists that the IP may be claiming expenditures not supported by documents and concerns over the repeated changes to cheques. The total budget provided to this IP is very large and there are concerns that these types of issues could be systematic.

Follow-up on issues identified is the responsibility of the UNFPA programme officer managing the relationship with the IP. While other UNFPA staff may play a supporting role, the programme officer is ultimately responsible for follow-up.

Most issues identified can be resolved directly with the IP either through requesting refunds or ensuring the IP takes action on recommendations made to strengthen internal controls. However, when offices suspect that the IP is systematically claiming ineligible expenditures OAS is consulted for support and advice.

IV.3 Update the Assurance plan

Once the spot check is completed and documentation is finalized, the HACT focal point:

- Ensures that the spot check report (Annex B), the test of expenditure worksheet (Annex C) and sampled FACE forms are uploaded in the online IP Assurance System (IPAS)
- Updates the assurance plan for the completed spot check;
- If the spot check report includes high priority findings, flags the spot check for follow up; and
- If a decision is made to conduct additional spot checks or audits, updates the plan for the respective assurance activities.

Spot Check Guidance Annexes

Annex A – Spot Check Checklist



Annex A Spot
Check Checklist.doc

Annex B – Spot Check Report



Revised Spot Check
Report Annex B.docx

Annex C – Test of Expenditures Worksheet



Annex C - Test of
expenditures

Appendix IV: Terms of Reference for HACT Audit

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1. Introduction

- 1.1 UNDP, UNFPA and UNICEF provide cash transfers to implementing partners (“IP(s)”, “Partner(s)”) responsible and accountable for ensuring proper use of agency-provided resources, implementation and management of the intended programme(s) as defined in the work plan or programme document. Three cash transfer modalities are available:
- a) Direct cash transfers – the agency transfers funds to the IP before the IP incurs obligations and expenditures to support activities agreed in the work plan;
 - b) Direct payments – the agency transfers funds directly to vendors and other third parties for obligations and expenditures incurred by the IP to support activities agreed in the work plan; and
 - c) Reimbursements – the agency transfers funds to the IP for obligations made and expenditures incurred in support of activities agreed in work plan.
- 1.2 According to the UNDG HACT Framework, audits are performed during the programme cycle on the basis of the IPs risk rating and as per UN agency policy. If more than one of the adopting agencies transfer funds to the same implementing partner (shared IP), HACT audit is performed on all expenditures reported by the shared IP.
- 1.3 This terms of reference (ToR) was developed to guide United Nations (UN) agency, third party service providers (“Auditor”) and implementing partners through the development of objectives, scope, and deliverables of a HACT audit.

2. Audit Objectives and Standards

- 2.1 The overall objective of the audit is to provide the UN agency(ies) with a reasonable assurance on the appropriate use of funds provided to the Partner in accordance with the reporting requirements of the UN agency(ies), the IP agreement(s), programme document, work plan(s) and budgets.
- 2.2 The audit is conducted in accordance with International Auditing Standards (ISA) 800 Special Considerations – Audit of Financial Statements Prepared in Accordance with Special Purpose Frameworks
- 2.3 If the auditor is a supreme audit institution, the audit is conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) International Standards.
- 2.4 The auditor expresses an opinion on whether the statement of expenditure⁶ for each programme is presented fairly, in all material respects, in accordance with the UN agency’s accounting policy and the eligible expenditures incurred to implement activities in conformity with the terms of the IP agreement, work plan or programme document.
- 2.5 The statement of expenditure contains the transactions for the audit period and reports on the balance of any funds remaining unspent and due to the funding agency at the end of the project period. The transactions of the programme are also checked

⁶ Statement of Expenditure can include Statements of Cash Balance, Assets and Equipment, and List of Inventory, as required by the funding agency(ies).

against the bank account reconciliations. The bank account is the account held by the Partner into which funds were deposited for the programme. The transactions are checked to determine whether they are adequately supported by appropriate documentation that evidences the validity of the transactions reported, and whether the goods and services procured have been received and used to implement the activities in line with the work plan or programme document.

- 2.6 The Auditor must also assess whether the amount reported on the statement of expenditure corresponds to the amount recorded in the Partner's accounting system and reconciles to the amounts reported on the FACE forms for the audit period.
- 2.7 The auditor also expresses an opinion whether the funds transferred to the IP were used for the purpose intended in accordance with the work plan or programme document, approved budget, and the requirements of the applicable funding agreement.
- 2.8 The Audit Report must quantify the monetary value of the net financial impact of the audit observations and clearly identify the reasons for qualification if the audit opinion is Qualified, Adverse or Disclaimer.
- 2.9 The auditor also assesses the implementing partner's key internal controls in the areas of programme management, organizational structure and staffing, accounting policies and procedures, fixed assets and inventory, financial reporting and monitoring, and procurement and contract administration and reports on specific control weaknesses, audit observations and recommendations to address them, and indication of the risks associated with the weaknesses/observations. Management comments are expected.
- 2.10 For UNFPA, the auditor also expresses an opinion whether advances reported by the IP on the FACE forms match the advances paid by UNFPA through the Operating Fund Account (OFA) in Atlas (report provided by UNFPA); and whether the closing OFA balance reported by the IP on the FACE form agrees to the OFA balance in Atlas (report provided by UNFPA) and to the cash balances per the IP's accounting records. Where the IP maintains a segregated bank account, then the OFA balance should also agree to the bank statement balance.
- 2.11 The format and content of the Audit Report and the list of key internal controls to be tested are described in these Terms of Reference, and templates are included in annexes.

3. Engagement Context

- 3.1. The selection of Auditor is established based on a thorough assessment of qualifications and the ToR, as well as a competitive bidding process in accordance with the UN agencies' procurement and contracting rules and regulations for commercial service providers.
- 3.2 The audit will be performed in the country of operation, at location(s) where the Partner maintains programme documentation, typically at the programme implementation sites. Each country office or the agencies' headquarters will identify a focal person responsible for assigning the Auditor and liaising with the Partner(s) in order to ensure efficient coordination and establish deadlines. Should the location and/or scope of work change, the focal person and the Auditor will determine the

requirements, mutually agree on the cost implications, and adjust the payment accordingly.

- 3.3 The Auditor will obtain an understanding of the engagement context of the programme subject to this audit, on the basis of the agreement, work plan or programme document signed by the agency and the Partner and the additional supplementary information to be provided as per section 6.

4. Qualification and Team Composition

4.1 Qualifications and Experience

- 4.1.1 By agreeing to these ToR, the Auditor confirms that he/she meets at least one of the following terms:
- a) The Auditor is a professional accountant (or a firm of professional accountants) that is a member of a national accounting or auditing body or institution, which in turn is a member or associate of the International Federation of Accountants (IFAC).⁷
 - b) The Auditor is a member of a national accounting or auditing body or institution that is a recognized regulatory body of professional accountants and Auditors. The Auditor commits him/herself to undertake this engagement in accordance with the IFAC Handbook on International Standards on Auditing and Quality Control, including the Code of Ethics therein.
 - c) The Auditor is registered as a statutory Auditor in the public register of a public oversight body in a third country, and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to Auditors and audit firms based in a third country).
- 4.1.2 The Auditor is subject to the relevant ethical requirements, including those pertaining to independence and conflict of interest relating to HACT audit engagements. Relevant ethical requirements ordinarily comprise of Parts A and B of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) related to an audit of financial statements together with national requirements that may be more restrictive.
- 4.1.3 In addition, the agencies will seek feedback from country offices on the performance and the quality of the audit field work and audit results provided by the assigned Auditors in their respective areas and assessments based on Key Performance Indicators (in a format designed by the agencies such as reviews and sample testing, post-audit client satisfaction, etc.).

4.2 Team Composition

- 4.2.1 The composition of the audit team shall be such that the Auditor is able to comply with the International Standards on Auditing. A mixture of audit team members with

⁷ A list of IFAC members and associates is available at <http://www.ifac.org/about-ifac/membership/members>.

different categories of Auditors and variable seniority is required for this assignment. This should include a highly qualified team leader(s), expert(s), and assistant(s). The number of members will vary according to the audit subject, volume and size of the Programme(s) being audited.

- 4.2.2 The principal Auditor should have at least 10 years of post-qualification audit experience. The team will be led by a duly certified professional auditor, such as a Chartered Accountant (CA), Chartered Certified Accountant (CCA), Certified Public Accountant (CPA), or Certified Auditor (CA). The team should also be experienced in applying the *International Standards on Auditing*. The Auditor must employ an adequate number of staff with appropriate professional qualifications and suitable experience with ISA, including experience in auditing of entities comparable in size and complexity to the entity being audited.

5. Documents to be provided to the Auditor

- 5.1 In connection with the audit assignment, the UN agency(ies) and the Implementing Partner will provide to the Auditor access to all information of the UN agency(ies) and the Partner that is relevant to the audit in advance of the engagement, such as:
- a) Programme specific information (**see Annex I**)
 - b) The Implementing Partner Agreement(s) and respective Work Plan(s) or Programme Document(s) for the audited period;
 - c) Statement of expenditures, CDR or its equivalent, as defined by the UN agency specific guidelines;
 - d) Financial Authorization and Certificate of Expenditures (FACE) forms included in the statement of expenses, CDR or its equivalent, duly certified as to their accuracy and completeness;
 - e) The HACT micro assessment for the audited implementing partner;
 - f) Previous audit and spot check reports;
 - g) Statement of assets and equipment (if necessary and as defined by UN agency specific guidelines);
 - h) Statement of cash position / operating fund account (if necessary and as defined by UN agency specific guidelines);
 - i) Statement of inventory (if necessary and as defined by UN agency specific guidelines);
 - j) Direct payment requests authorized by the implementing partner and included in the statement of expenses (i.e., CDR or its equivalent) if applicable;
 - k) List of disbursements made by the UN agency (if applicable) as part of support services provided to the implementing partners;
 - l) For UNFPA, the advances paid by UNFPA through the OFA and the closing OFA balance in Atlas;
 - m) Any other relevant reports.
 - n) Additional information that the Auditor may request from the UN agency and the Partner for the purpose of the audit;
 - o) Unrestricted access to persons engaged by the Partner from whom the Auditor determines it is necessary to obtain audit evidence.

6. Limitations

- 6.1 The Auditor will notify the UN Agency of any attempt by the Partner to restrict the scope of the audit, or any lack of co-operation on the part of the Partner. If, after accepting the engagement, the Auditor becomes aware that the management of the Partner subject to audit has imposed a limitation on the scope of the audit that the Auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion, the Auditor shall request that management remove the limitation. The Auditor will notify UN Agency concerned as soon as possible of any limitations in the scope of work he/she may find prior to or during the audit. The Auditor will consult UN Agency on what action may be required, whether or how the audit can be continued, and whether changes in the audit scope or the timetable are acceptable.

7. Audit Procedures

- 7.1 The audit period is normally 12 months with the specific dates prescribed by the UN agency. The agency can modify the audit period to match the actual period of implementation of the annual programme activities.
- 7.2 The audit is performed based on the total expenses reported during the audit period by the implementing partner on funds provided by the commissioning UN agency. The statement of expenditure can be the sum of CDRs or sum of CDR equivalent downloaded for the IP from UN agency's system or prepared by the IP partner in their reporting format. The audit covers all expenditures incurred under the three modalities.
- 7.3 The auditor must verify that the statement of expenditure reconciles with the total expenditures reported on the FACE forms (and direct payment requests if applicable) submitted by IP during the audit period. Any differences must be explained and documented in the audit report.
- 7.4 The auditor is required to verify that the expenses in the statement of expenditures reconcile with the implementing partner's accounting report and are in accordance with the approved work plan or programme document and budget and supported by approved documentation.
- 7.5 The Auditor will perform the audit to obtain reasonable assurance about whether the statement of expenditure is free from material misstatement. An audit involves performing all procedures necessary to obtain audit evidence about the amounts reported in the statement of expenditure.
- 7.6 The Auditor is required to report the net financial impact of any unsupported and ineligible expenses.
- 7.7 The Auditor is required to confirm that key controls exist and are operating effectively by assessing the key questions from the 2016 HACT micro assessment questionnaire (included in **Annex III**) and by verifying whether micro assessment recommendations have been implemented. The key controls assessment is covered within the detailed expenditure testing. Separate control tests are required where the control cannot be covered within detailed expenditure testing.

8. Audit Report

- 8.1 The Auditor will submit an audit report in accordance with the ISA by using the suggested audit report template included in **Annex II**. It is the expectation that the Auditor will use the same format for all audits globally.
- 8.2 The audit report must include at a minimum:
- a) Audit Opinion;
 - b) Period covered by the audit opinion;
 - c) Total amount of expenses audited;
 - d) Audit observations and recommendations;
 - e) Ineligible expenditures;
 - f) Key internal controls weaknesses;
 - g) OFA opinion (UNFPA only);
 - h) Statement of expenditure or CDR for the audit period;
 - i) FACE forms submitted for the audit period.
- 8.3 The Auditor will clearly quantify the net financial impact in the audit opinion and clearly identify the reasons for qualification (if any). If financial findings are below the materiality level, the Auditor is still required to report them, even if the dollar amount is small as an emphasis of matter, so that the UN Agency can obtain the recoverable amounts from partners. This information will also be collected as part of the reporting process. Non-financial findings that have financial implications might also lead to a modified audit opinion.
- 8.4 Any indication included in the Audit Report restricting its distribution and/or use will be deemed null and void.

9. Types of Audit Opinion

- 9.1 The audit report must include one of the four types of opinion:

a) Unqualified opinion

An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

b) Qualified opinion

A qualified opinion is expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates.

c) Disclaimer of opinion

A disclaimer of opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and, accordingly, is unable to express an opinion on the financial statements.

d) Adverse

An adverse opinion is expressed by an auditor when the financial statements are significantly misrepresented, misstated and do not accurately reflect the expenditure incurred and reported in the financial statements (statement of expenses, statement of cash, statement of assets and equipment).

An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

10. Classification of Findings

10.1 The Auditor will report separately on findings relating to matters identified during the course of the audit.

10.2 Findings and observations with financial impact should be classified under one of the following categories:

- a) No supporting documentation;
- b) Insufficient supporting documentation;
- c) Cut-off error;
- d) Expenditure not for project purposes;
- e) No proof of payment;
- f) No proof of goods / services received;
- g) VAT incorrectly claimed;
- h) DSA rates exceeded;
- i) Unreasonable price;
- j) Bank interest not reported;
- k) Support costs incorrectly calculated;
- l) Expenditure claimed but activities not undertaken;
- m) Advance claimed as expenditure;
- n) Commitments treated as expenditure;
- o) Ineligible salary costs;
- p) Ineligible costs (other).

10.3 The Auditor will assess the effectiveness of the key internal controls listed in **Annex III**. The key internal controls not operating effectively must be classified with respect to the following subject areas:

- a) Implementing Partner;
- b) Programme Management;
- c) Organizational Structure and staffing;
- d) Accounting Policies and Procedures

- General
- Segregation of duties
- Budgeting
- Payments
- Cash and bank
- Other offices and entities
- e) Fixed Assets and inventory;
- f) Financial Reporting and Monitoring;
- g) Procurement and Contract Administration;
- h) Other internal control weaknesses.

10.4 The audit observations should be categorized according to the priority of the audit recommendations and the possible causes of issues. The categorized audit observation provides a basis on which the management of the UN agency is to address issues as follows:

High (critical)	Internal controls, governance and risk management processes were neither established nor functioning well. The control deficiency can significantly impact the ability of the IP to efficiently manage and report on the use of the agency funding. Prompt action is required to ensure the agency is not exposed to high risks. Failure to take action could result in major negative consequences for the funding agency.
Medium (important)	Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. The control deficiency can impact the ability of the IP to efficiently manage and report on the use of the agency funding. Action is required to ensure that the funding agency is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for the agency.
Low	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the ability of the IP to efficiently manage and report on the use of the agency funding. Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if dealt with during the exit meeting, would not be included in the audit report.

11. Other Requirements

11.1 Reporting – Language

11.1.1 The Audit Report must be presented in either English, French or Spanish, or as agreed between the UN Agency and the Auditor. Reports prepared in language other than one of the UN working languages (English, French or Spanish) will need to be translated by the Auditor into one of the UN working languages upon request. Translation should not delay the delivery of the documents within the timeframe agreed.

11.2 Timetable for Submission of Draft and Final Audit Reports

11.2.1 The timeline for the milestone delivery will be stipulated in the Statement of Work. The Auditor will respect the procedures and the timetable for the conduct of the field work and submission of the reports (including the draft and final reports). If the timetables for comments are not respected by other parties (i.e. UN agency) and/or the Partner), the Auditor will document such delays in his/her working papers, and report thereon in the audit report.

11.2.2 The audit working papers and related documents shall be available to the UN agency and shall be kept by the Auditor for a minimum period of seven years after the issuance of reports. They must be made available to the UN agency for review upon request, at any stage during this period.

11.3 Submission Process

11.3.1 The submission of final deliverables to the UN Agency will be made through direct submission in paper and electronic format.

11.4 Follow-up Procedures

11.4.1 The Auditor is required to submit the draft report to the UN agency(ies) and the Partner for the Partner's comments. The Partner must provide its comments, if any, within seven days of the Auditor's submission.

11.4.2 After finalizing the Audit Report, the Auditor will submit it to the UN agency, and the agency will follow up with the Partner to discuss and agree on the measures and remedial actions to be taken. The Auditor may, where appropriate, be requested to provide clarifications or consider additional information with regard to the audit and reports.

11.5 Other Observations

11.5.1 Cases which indicate fraud or presumptive fraud must be brought to the immediate attention of the UN agency as soon as possible, without waiting for the issuance of the audit report.

11.5.2 The Auditor and staff shall maintain confidentiality regarding any information obtained in connection with the audit services undertaken on behalf of the UN agency.

12. Audit of Shared Partner

12.1 If the IP is receiving funding by two or more UN agencies, the Auditor must perform the audit procedures on each statement of expenditures or equivalent in order to be able to express a separate opinion on whether the funds transferred to the IP from each agency were used for the appropriate purpose and in accordance with each agency's work plan and agreement. The materiality level must be determined individually for each funding agency based on the amount of expenditures reported to each agency.

12.2 The Auditor must include in the audit report separately for each funding agency:

- a) Audit Opinion;
- b) Period covered by the audit opinion;

- c) Total amount of expenses audited;
 - d) Audit Observations and Recommendations;
 - e) Ineligible expenditures;
 - f) Statement of Expenditure or CDR for the audit period;
 - g) FACE forms submitted for the audit period.
- 12.3 The assessment of key internal controls and report on key internal control weaknesses is performed at the implementing partner level and is not agency specific.
- 12.4 The UN agency requiring HACT audit as per its guidance is considered the lead agency and will commission the audit. The lead agency is responsible for informing the other funding UN agency(ies) of the upcoming audit and requesting them to submit the documents to be provided to the auditor in advance.

Annex I: Programme specific Information

The following information should be completed by the lead agency and provided to the Auditor at the start of the engagement.

Implementing partner name	
Implementing partner code or ID in UNICEF, UNDP, UNFPA records	
Implementing partner contact details (contact name, email address and telephone number)	
Programme name	
Programme number/Project Code/ID as per UN records	
Programme location(s)	
Location of records	
Currency of records maintained	
Period covered by the audit	
Funds received from UNICEF/UNDP/UNFPA during the period covered by the audit	
Expenditure incurred/reported to UNICEF/UNDP/UNFPA during the period covered by the audit	
Intended start date of fieldwork	
Submission deadline (including draft and final reports to local agency management)	
Submission logistics	
Any special requests to be considered during engagement	
Cash transfer modality/ies used by the UN agency/ies to the IP	

Annex II: Suggested Audit Report Template

NAME OF THE UNITED NATIONS AGENCY OR AGENCIES

AUDIT REPORT

Audit of the implementing partner:

Implementing Partner Name

Country:	Country name
Auditor:	Audit firm name
Period subject to audit:	DD MONTH 20YY to DD MONTH 20YY

Contents

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3.	Financial findings	5
4.	Assessment of key internal controls	7
Annex I – Statement of Expenditure or CDRs for the audit period		8
Annex II – FACE forms for the audit period		9

1. Executive summary

[UN Agency] engaged [Audit firm name] on [date] to conduct an audit on the expenditures reported by the implementing partner for the period [Beginning Date] to [End Date] 20XX. The audit has been conducted as per the terms of reference for a HACT audit under the Harmonized Approach to Cash Transfer (HACT) Framework.

A summary of the audit findings that have been raised is presented in the table below:

Table 1.1 – Summary of audit findings

Implementing partner	Audited expenditure US\$	Financial findings US\$	% of audited expenditure	Audit opinion	No. of Financial findings	No. of Key Control Weaknesses		
						High risk	Medium risk	Low risk
Implementing partner name	-	-	-	Unqualified	-	-	-	-
Total	-	-	-	Unqualified	-	-	-	-

2. Audit opinion

We have audited the accompanying statement of expenditure (“the statement”) of *[insert name of implementing partner]* (the “implementing partner” or “IP”), under the agreement dated *[insert date of agreement]* (the “Agreement”), in connection with the *[insert official title of the programme]* for the period *[insert period covered]*. The statement has been prepared by management of *[insert name of implementing partner]* in accordance with the terms and condition of the Agreement.

Management’s Responsibility for the Statement

Management of the implementing partner is responsible for the preparation of the statement in accordance with the agreement terms and conditions and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the statement 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 project’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 presentation of the statement.

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

Opinion

[Insert one of the four types of opinion as defined in section 9 of the audit terms of reference]

Name and Signature of Partner

Date of the report

Audit firm name

Audit firm address

3. FINANCIAL findings

Financial finding 1	
Title (Category):	
Amount [local]:	
Amount US\$:	

Description

Recommendation

IP comments

Financial finding 2	
Title (Category):	
Amount [local]:	
Amount US\$:	

Description

Recommendation

IP comments

Financial finding 3	
Title (Category):	
Amount [local]:	
Amount US\$:	

Description

Recommendation

IP comments

4. ASSESSMENT OF KEY INTERNAL CONTROLS

- 4.1 We found that the implementing partner *[had]* / *[had not]* implemented all the recommendations from the micro assessment conducted on *[insert date of latest micro assessment]*. The recommendations that have not been implemented are presented in the table below:

Recommendation	Audit Observation	IP Response

- 4.2 We have reviewed the implementation of applicable key internal controls and noted the following key internal control weaknesses:

Subject Area	Key Control Observation	Risk rating	Recommendation	IP Response
Implementing Partner				
Programme Management				
Organizational Structure and staffing				
Accounting Policies and Procedures				
General				
Segregation of duties				
Budgeting				
Payments				
Cash and bank				
Other offices and entities				
Fixed Assets and inventory				
Financial Reporting and Monitoring				
Procurement and Contract Administration				
Other internal control weaknesses				

ANNEX I – STATEMENT OF EXPENDITURE OR CDRS FOR THE AUDIT PERIOD

ANNEX II – FACE FORMS FOR THE AUDIT PERIOD

Annex III: HACT Micro Assessment Key Internal Control Questions

Subject area and key questions	Yes	No	N/A	Remarks/comments
1. Implementing Partner				
1.1 Is the IP legally registered? If so, is it in compliance with registration requirements? Please note the legal status and date of registration of the entity.				
1.2 If the IP received United Nations resources in the past, were significant issues reported in managing the resources, including from previous assurance activities.				
1.3 Does the IP have statutory reporting requirements? If so, are they in compliance with such requirements in the prior three fiscal years?				
1.4 If any other offices/ external entities participate in implementation, does the IP have policies and process to ensure appropriate oversight and monitoring of implementation?				
1.5 Does the IP show basic financial stability in-country (core resources; funding trend) <i>Provide the amount of total assets, total liabilities, income and expenditure for the current and prior three fiscal years.</i>				

Subject area and key questions	Yes	No	N/A	Remarks/comments
2. Programme Management				
2.1. Do work plans specify expected results and the activities to be carried out to achieve results, with a time frame and budget for the activities?				
2.2 Does the IP carry out and document regular monitoring activities such as review meetings, on-site project visits, etc.				

Subject area and key questions	Yes	No	N/A	Remarks/comments
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Subject area and key questions	Yes	No	N/A	Remarks/comments
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3. Organizational Structure and Staffing

3.1 Are the IP's recruitment, employment and personnel practices clearly defined and followed, and do they embrace transparency and competition?				
3.2 Is the organizational structure of the finance and programme management departments, and competency of staff, appropriate for the complexity of the IP and the scale of activities? Identify the key staff, including job titles, responsibilities, educational backgrounds and professional experience.				
3.3 Is the IP's accounting/finance function staffed adequately to ensure sufficient controls are in place to manage agency funds?				

Subject area and key questions	Yes	No	N/A	Remarks/comments
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4. Accounting Policies and Procedures

4a. General

4.1 Does the IP have an accounting system that allows for proper recording of financial transactions from United Nations agencies, including allocation of expenditures in accordance with the respective components, disbursement categories and sources of funds?				
4.2 Does the IP have an appropriate cost allocation methodology that ensures accurate cost allocations to the various funding sources in accordance with established agreements?				

Subject area and key questions	Yes	No	N/A	Remarks/comments
4.3 Are all accounting and supporting documents retained in an organized system that allows authorized users easy access?				
<i>4b. Segregation of duties</i>				
4.4 Are the following functional responsibilities performed by different units or individuals: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?				
4.5 Are the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated?				
4.6 Are bank reconciliations prepared by individuals other than those who make or approve payments?				
<i>4c. Budgeting system</i>				
4.7 Are budgets prepared for all activities in sufficient detail to provide a meaningful tool for monitoring subsequent performance?				
4.8 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations from the budget?				
<i>4d. Payments</i>				
4.9 Do invoice processing procedures provide for: <ul style="list-style-type: none"> • Copies of purchase orders and receiving reports to be obtained directly from issuing departments? • Comparison of invoice quantities, prices and terms with those indicated on the purchase order and with records of goods/services actually received? • Checking the accuracy of calculations? 				

Subject area and key questions	Yes	No	N/A	Remarks/comments
4.10 Are payments authorized at an appropriate level? Does the IP have a table of payment approval thresholds?				
4.11 Are all invoices stamped 'PAID', approved, and marked with the project code and account code?				
4.12 Do controls exist for preparation and approval of payroll expenditures? Are payroll changes properly authorized?				
4.13 Do controls exist to ensure that direct staff salary costs reflects the actual amount of staff time spent on a project?				
4.14 Do controls exist for expense categories that do not originate from invoice payments, such as DSAs, travel, and internal cost allocations?				
4f. Cash and bank				
4.15 Does the IP require dual signatories / authorization for bank transactions? Are new signatories approved at an appropriate level and timely updates made when signatories depart?				
4.16 Does the IP maintain an adequate, up-to-date cashbook, recording receipts and payments?				
4.17 Are bank balances and cash ledger reconciled monthly and properly approved? Are explanations provided for significant, unusual and aged reconciling items?				
4.18 Is substantial expenditure paid in cash? If so, does the IP have adequate controls over cash payments?				
4g. Other offices or entities				
4.19 Does the IP have a process to ensure expenditures of subsidiary offices/ external entities				

Subject area and key questions	Yes	No	N/A	Remarks/comments
are in compliance with the work plan and/or contractual agreement?				

Subject area and key questions	Yes	No	N/A	Remarks/comments
5. Fixed Assets and Inventory				
5.1 Do warehouse facilities have adequate physical security?				
5.2 Does the IP have an inventory management system that enables monitoring of supply distribution?				

Subject area and key questions	Yes	No	N/A	Remarks/comments
6. Financial Reporting and Monitoring				
6.1 Are the IP's overall financial statements audited regularly by an independent auditor in accordance with appropriate national or international auditing standards? If so, please describe the auditor.				
6.2 Were there any major issues related to ineligible expenditure involving donor funds reported in the audit reports of the IP over the past five years?				
6.3 Is the financial management system computerized?				

Subject area and key questions	Yes	No	N/A	Remarks/comments
7. Procurement and Contract Administration				
7.1 Does the IP require written or system authorizations for purchases? If so, evaluate if the authorization thresholds are appropriate?				

Subject area and key questions	Yes	No	N/A	Remarks/comments
7.2 Does the IP obtain sufficient approvals before signing a contract?				
7.3 Does the IP follow a well-defined process for sourcing suppliers? Do formal procurement methods include wide broadcasting of procurement opportunities?				
7.4 Does the IP follow a well-defined process to ensure a secure and transparent bid and evaluation process? If so, describe the process.				
7.5 When a formal invitation to bid has been issued, does the IP award the contract on a pre-defined basis set out in the solicitation documentation taking into account technical responsiveness and price?				

Appendix V: Terms of Reference for HACT Special Audit

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1. Introduction

- 1.1 UNDP, UNFPA and UNICEF provide cash transfers to implementing partners (“IP(s)”, “Partner(s)”) responsible and accountable for ensuring proper use of agency-provided resources, implementation and management of the intended programme(s) as defined in the work plan or programme document. Three cash transfer modalities are available:
- d) Direct cash transfers – the agency transfers funds to the IP before the IP incurs obligations and expenditures to support activities agreed in the work plan;
 - e) Direct payments – the agency transfers funds directly to vendors and other third parties for obligations and expenditures incurred by the IP to support activities agreed in the work plan; and
 - f) Reimbursements – the agency transfers funds to the IP for obligations made and expenditures incurred in support of activities agreed in work plan.
- 1.2 According to the undg HACT Framework, Special audits are triggered as a result of specific issues and concerns arising during the programme cycle. The special audit may focus on financial information or internal controls, depending on the nature of the potential or identified issues.
- 1.3 This terms of reference (ToR) was developed to guide the United Nations (UN) agency, third party service providers (“Auditor”) and implementing partners through the development of objectives, scope, and deliverables of a HACT special audit.

2. Audit Objectives and Standards

- 2.12 The overall objective of the special audit is for the auditor to carry out procedures of an audit nature to which the auditor and the UN Agency and any appropriate third parties have agreed and to report on factual findings.
- 2.13 The audit is conducted in accordance with the International Standard on Related Services (ISRS) 4400 – Engagements to Perform Agreed-upon Procedures Regarding Financial Information.
- 2.14 If the auditor is a supreme audit institution, the audit is conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) ISSAI 4000-4999 General Auditing Guidelines on Compliance Audit.
- 2.15 The auditor provides a report of the factual findings of agreed-upon procedures, no assurance is expressed. The UN Agency(ies) assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor’s work.
- 2.16 The auditor also reports on specific control weaknesses, audit observations and recommendations to address them, and indication of the risks associated with the weaknesses/observations.

- 2.17 Sample format and content of the Special Audit Report is described in these Terms of Reference, and template is included in annexes. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

3. Engagement Context

- 3.1. The selection of Auditor is established based on a thorough assessment of qualifications and the ToR, as well as a competitive bidding process in accordance with the UN agencies' procurement and contracting rules and regulations for commercial service providers.
- 3.2 The audit will be performed in the country of operation, at location(s) where the Partner maintains programme documentation, typically at the programme implementation sites or at the location where the programme is being implemented. Each country office or the agency's headquarters will identify a focal person responsible for assigning the Auditor and liaising with the Partner(s) in order to ensure efficient coordination and establish deadlines. Should the location and/or scope of work change, the focal person and the Auditor will determine the requirements, mutually agree on the cost implications, and adjust the payment accordingly.
- 3.3 The Auditor will obtain an understanding of the agreed upon procedure, the programme related to the special audit, work plan or programme document signed by the agency and the Partner and the additional supplementary information to be provided as per macro-assessment result.

4. Qualification and Team Composition

4.1 Qualifications and Experience

- 4.1.1 By agreeing to these ToR, the Auditor confirms that he/she meets at least one of the following terms:
- d) The Auditor is a professional accountant (or a firm of professional accountants) that is a member of a national accounting or auditing body or institution, which in turn is a member or associate of the International Federation of Accountants (IFAC).⁸
 - e) The Auditor is a member of a national accounting or auditing body or institution that is a recognized regulatory body of professional accountants and Auditors. The Auditor commits him/herself to undertake this engagement

⁸ A list of IFAC members and associates is available at <http://www.ifac.org/about-ifac/membership/members>.

in accordance with the IFAC Handbook on International Standards on Auditing and Quality Control, including the Code of Ethics therein.

- f) The Auditor is registered as a statutory Auditor in the public register of a public oversight body in a third country, and this register is subject to principles of public oversight as set out in the legislation of the country concerned (this applies to Auditors and audit firms based in a third country).
- 4.1.2 The auditor should comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code). Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or national standards may require the auditor to comply with the independence requirements of the IESBA Code. Where the auditor is not independent, a statement to that effect would be made in the report of factual findings.
- 4.1.3 In addition, the UN Agency(ies) will seek feedback from country offices on the performance and the quality of the audit field work and audit results provided by the assigned auditors in their respective areas and assessments based on Key Performance Indicators (in a format designed by the agencies such as reviews and sample testing, post-audit client satisfaction, etc.).

4.2 Team Composition

- 4.2.1 The composition of the audit team shall be such that the Auditor is able to comply with the International Standards on Auditing. A mixture of audit team members with different categories of Auditors and variable seniority is required for this assignment. This should include a highly qualified team leader(s), expert(s), and assistant(s). The number of members will vary according to the agreed upon procedures.
- 4.2.2 The team will be led by a duly certified professional auditor, such as a Chartered Accountant (CA), Chartered Certified Accountant (CCA), Certified Public Accountant (CPA), Certified Auditor (CA) or Certified Fraud Examiner (CFE). The team should also be experienced in applying the *International Standards on Auditing*. The Auditor must employ an adequate number of staff with appropriate professional qualifications and suitable experience with ISA, including experience in auditing of entities comparable in size and complexity to the entity being audited.

5. Documents to be provided to the Auditor

- 5.1 In connection with the audit assignment, the UN agency(ies) and the Implementing Partner will provide to the Auditor access to all information of the UN agency(ies) and the Partner that is relevant to the audit in advance of the engagement (see **Annex I**), such as:
- p) Programme specific information

- q) The Implementing Partner Agreement(s) and respective Work Plan(s) or Programme Document(s) for the audited period;
- r) Statement of expenditures, CDR or its equivalent, as defined by the UN agency specific guidelines;
- s) Financial Authorization and Certificate of Expenditures (FACE) forms included in the statement of expenses, CDR or its equivalent, duly certified as to their accuracy and completeness;
- t) The HACT micro assessment for the audited implementing partner;
- u) Previous audit and spot check reports;
- v) Statement of assets and equipment (if necessary and as defined by UN agency specific guidelines);
- w) Statement of cash position / operating fund account (if necessary and as defined by UN agency specific guidelines);
- x) Statement of inventory (if necessary and as defined by UN agency specific guidelines);
- y) Direct payment requests authorized by the implementing partner and included in the statement of expenses (i.e., CDR or its equivalent) if applicable;
- z) List of disbursements made by the UN agency (if applicable) as part of support services provided to the implementing partners;
- aa) For UNFPA, the advances paid by UNFPA through the OFA and the closing OFA balance in Atlas;
- bb) Any other relevant reports.
- cc) Additional information that the Auditor may request from the UN agency and the Partner for the purpose of the audit;
- dd) Unrestricted access to persons engaged by the Partner from whom the Auditor determines it is necessary to obtain audit evidence.

6. Limitations

- 6.1 The Auditor will notify the UN Agency of any attempt by the Partner to restrict the scope of the audit, or any lack of co-operation on the part of the Partner. If, after accepting the engagement, the Auditor becomes aware that the management of the Partner subject to audit has imposed a limitation on the scope of the audit, the Auditor shall request that management remove the limitation. The Auditor will notify UN Agency concerned as soon as possible of any limitations in the scope of work he/she may find prior to or during the audit. The Auditor will consult UN Agency on what action may be required, whether or how the audit can be continued, and whether changes in the audit scope or the timetable are acceptable.

7. Audit Procedures

- 7.1 The UN Agency should ensure with representatives of the audit team that there is a clear understanding regarding the agreed procedures and the conditions of the Special Audit.
- 7.2.1 The UN Agency and the Auditor should agree on:
- a) Purpose of the engagement;
 - b) Identification of the financial information or internal control(s) to which the agreed-upon procedures will be applied;
 - c) Nature, timing and extent of the specific procedures to be applied;
 - d) Anticipated form of the report of factual findings;
 - e) Limitations on distribution of the report of factual findings.
- 7.3 The auditor should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.

8. Audit Report

- 8.1 The Auditor will submit an audit report in accordance with the ISA by using the suggested audit report template included in **Annex II**.
- 8.2 The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.
- 8.3 At a minimum, the audit report will include:
- j) Title;
 - k) UN Agency engaging the Auditor to perform the agreed upon procedures;
 - l) Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied;
 - m) A statement that the procedures performed were those agreed upon with the UN Agency;
 - n) A statement that the engagement was performed in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements;
 - o) When relevant a statement that the auditor is not independent of the entity;
 - p) Identification of the purpose for which the agreed-upon procedures were performed;
 - q) A listing of the specific procedures performed;
 - r) A description of the auditor's factual findings including sufficient details of errors and exceptions found;
 - s) Statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;
 - t) A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;

- u) A statement that the report is restricted to those parties that have been agreed to the procedures to be performed;
- v) A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole;
- w) Date of the report;
- x) Auditor's address; and
- y) Auditor's signature.

9. Other Requirements

9.1 Reporting – Language

9.1.1 The Audit Report must be presented in either English, French or Spanish, or as agreed between the UN Agency and the Auditor. Reports prepared in language other than one of the UN working languages (English, French or Spanish) will need to be translated by the Auditor into one of the UN working languages upon request. Translation should not delay the delivery of the documents within the timeframe agreed. Translation costs can be included in the financial proposal.

9.2 Timetable for Submission of Draft and Final Audit Reports

9.2.1 The timeline for the milestone delivery will be stipulated in the Statement of Work. The Auditor will respect the procedures and the timetable for the conduct of the field work and submission of the reports (including the draft and final reports). If the timetables for comments are not respected by other parties (i.e. UN agency) and/or the Partner), the Auditor will document such delays in his/her working papers, and report thereon in the audit report.

9.2.2 The audit working papers and related documents shall be available to the UN agency and shall be kept by the Auditor for a minimum period of seven years after the issuance of reports. They must be made available to the UN agency for review upon request, at any stage during this period.

9.3 Submission Process

9.3.1 The Auditor is required to submit the draft report to the UN agency(ies).

9.3.2 If specified by the UN Agency(ies), the Auditor is required to submit the draft report to the Partner for the Partner's comments. The Partner must provide its comments, if any, within ten working days of the Auditor's submission.

9.3.3 The submission of final deliverables to the UN Agency will be made through direct submission in paper and electronic format.

9.4. Other Observations

- 9.4.1 Cases which indicate fraud or presumptive fraud must be brought to the immediate attention of the UN agency as soon as possible, without waiting for the issuance of the audit report.
- 9.4.2 The Auditor and staff shall maintain confidentiality regarding any information obtained in connection with the audit services undertaken on behalf of the UN agency.

Annex I: Programme Specific Information

The following information should be completed by the UN Agency and provided to the Auditor prior to the start of the engagement.

Implementing partner name	
Implementing partner code or ID in UNICEF, UNDP, UNFPA records	
Implementing partner contact details (contact name, email address and telephone number)	
Programme name	
Programme number/Project Code/ID as per UN records	
Programme location(s)	
Location of records	
Currency of records maintained	
Period covered by the audit	
Funds received from UNICEF/UNDP/UNFPA during the period covered by the audit	
Expenditure incurred/reported to UNICEF/UNDP/UNFPA during the period covered by the audit	
Intended start date of fieldwork	
Submission deadline (including draft and final reports to local agency management)	
Submission logistics	
Any special requests to be considered during engagement	
Cash transfer modality/ies used by the UN agency/ies to the IP	
A listing of the procedures to be performed as agreed upon between the parties.	

Annex II: Suggested Special Audit Report Template

NAME OF THE UNITED NATIONS AGENCY

AGREED UPON PROCEDURES REPORT

Report of Factual Findings in Connection with [Financial Information or Internal Control(s)] on Cash Transfers to

Implementing Partner Name

Country:	Country name
Auditor:	Audit firm name
Period subject to audit:	DD MONTH 20YY to DD MONTH 20YY

REPORT OF FACTUAL FINDINGS

To [UN Agency]

We have performed the procedures agreed with you and enumerated below with respect to *[financial information or internal control(s)]* of *[Implementing Partner name]* *[as at (date) – or for the period (Month, Year) to (Month, Year)]*, set forth in the accompanying *[schedules/appendices]*. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the *[financial information or internal control(s)]* and are summarized as follows:

1. *List specific procedures to be performed.*
2. ...

We report our findings below:

- (a) With respect to item 1 we found *[insert finding]*.
- (b) With respect to item 2 we found *[insert finding]...*

(Detail the exceptions)

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), we do not express any assurance on the *[financial information or internal contro(s) as of (date) or for the period month year to month year]*.

Had we performed additional procedures or had we performed a HACT audit of the statement of expenditure in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the accounts and items specified above and does not extend to any statement of expenditures of *[Implementing Partner]*, taken as a whole.

AUDITOR

Date:

Address:

APPENDIX VI: FAO TERMINOLOGY

When reading this document, please note that FAO uses the following terms:

UNICEF, UNFPA and UNDP terminology	FAO terminology
Micro assessment	Capacity Assessment
Implementing Partner	Operational Partner
HACT Audit	OP's Audit
Programme	Project
FACE Form	Financial Report
Annual Workplan	Project Document and Work Plan