

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:

1. Assist UNFPA 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 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

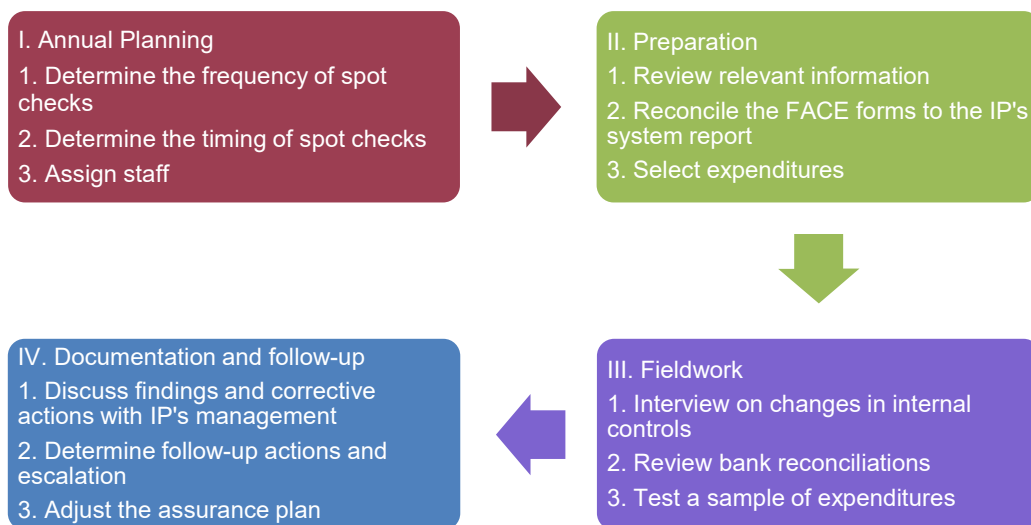
The spot check process consists of four activities. The table below summarizes the main timeframe and responsibilities.

	Activity	When?	How long? ¹	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.

¹ 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:

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

2. Annex B: Spot Check Report with findings & recommendations
3. 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;²
- 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.

² 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.³ 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:

³ 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:

1. 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.
2. 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.
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 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

1. Competitive offers were obtained as per the implementing IP's, the national policies or UNFPA's procedures in accordance with IP agreement.
2. Sufficient lead-time was given to advertising the bid.
3. The offers were dated after the invitation to tender dates and before the date of award of the contract.
4. 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

Risks	Red flags to watch for
<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

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

1. 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.
2. Verify that the approach is consistently used to calculate the apportioned amounts.
3. Ensure that the total cost allocated does 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. Verify that payments were received by the appropriate individual
4. Number and ToR of employees and payroll rates are consistent with work programme activity and related budget.
5. 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 	<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

Risks	Red flags to watch for
<ul style="list-style-type: none"> Much abuse takes place around benefits, e.g. allowances – per diems, transport, education 	

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.

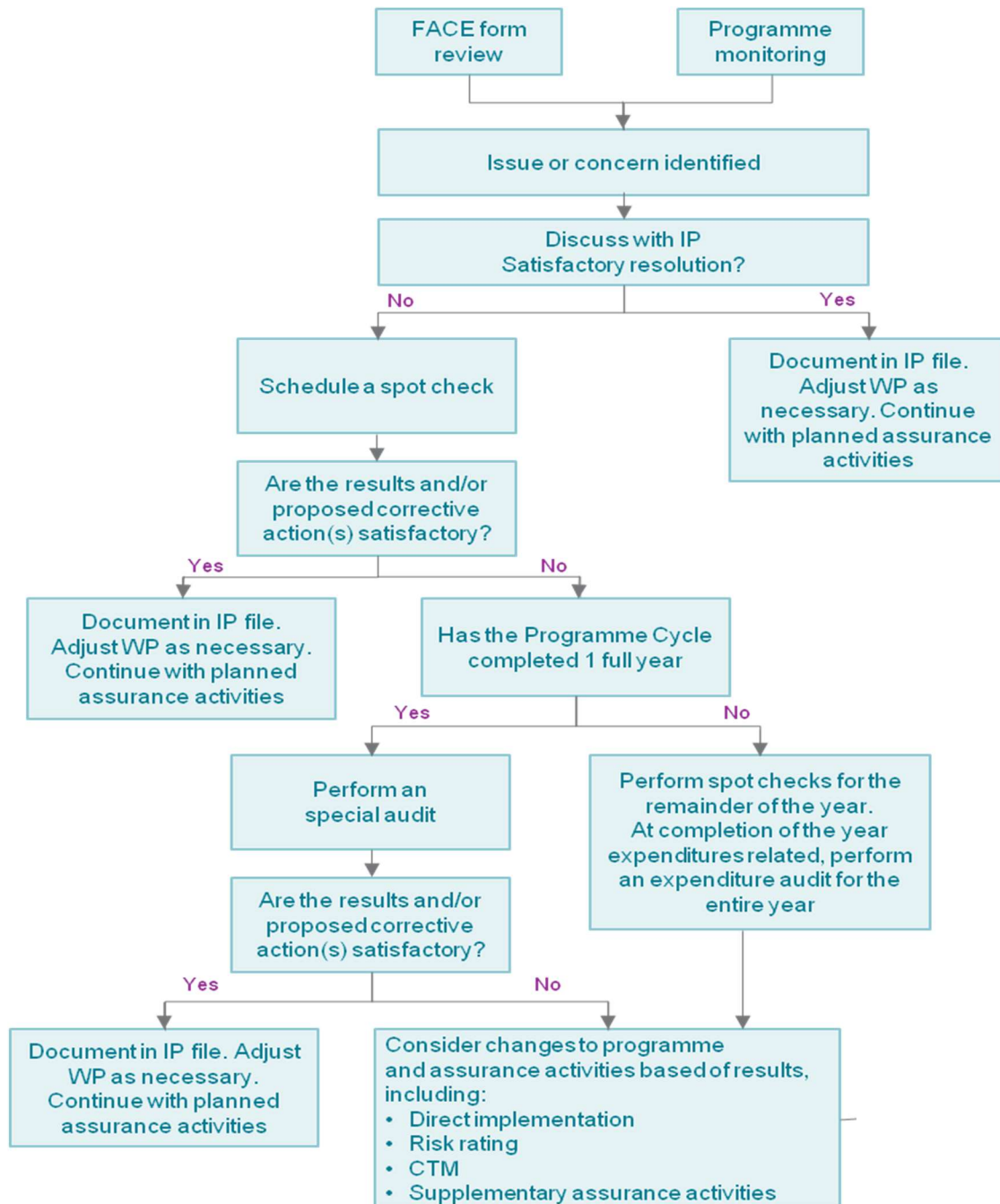
Low priority observations do not require follow up. The recommendations are documented in the spot check report and provided to the IP.

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