Annexes

Annex A: Additional guidance on the conduct of periodic on-site review (spot checks)

Who should perform spot checks?
To the fullest extent possible, UNDP offices should use third party qualified service providers (pre-selected through LTA contracts) to perform spot checks, preferably the same one that will later be contracted to perform scheduled audits. This is because:

- While a spot check is not an audit, many of the skills and experience required to perform effective spot checks are similar to those required for an audit.
- When agreed to in advance with the third party service provider, the results of spot checks may allow the same service provider to reduce the amount of work done and cost of the subsequent audit.
- Using one or a few pre-selected service providers, using LTAs, would promote consistency and efficiency as the provider(s) would carry out multiple spot checks.

As noted in section 7.7d of the HACT Framework, when a third party performs spot checks (agreed on procedures) a Management Letter can be included in scope (TOR on Appendix XI of HACT Framework), which would provide details of spot check findings and their impact to internal controls, third party service provider recommendations, and IP management responses can be requested by UNDP as a supplemental deliverable.

The cost of spot checks should be included in the project budget and charged directly to the project. In exceptional circumstances, the Framework anticipates offices using UNDP staff to perform spot checks as long as they have the necessary qualifications and capacity. Using UNDP staff to perform spot checks should be the exception, and in UNDP may only be used after obtaining written approval from HQ, through the HQ Focal Point.

Coverage under spot checks
Spot checks are risk based and cover the following:

a) Assessing whether there have been any material changes in the internal controls and the impact, if any, on the Adjusted Risk Rating.

b) If a separate bank account is maintained for UNDP funds provided (and other agencies’ funds for shared IPs), confirming that bank reconciliations are completed and all activity is properly recorded.

For a sample of transactions selected at random, verification that they are properly incurred, in accordance with the workplan, and properly recorded in the IPs accounting records and reported to UNDP (and other agencies for shared IPs) using FACE forms.

Selection of transactions for spot checks involving Non-Shared IPs (i.e. for UNDP projects only)

In selecting the sample of transactions, the following guidelines apply in UNDP for spot checks on non-shared IPs:

1) Select the FACE form(s) to review. The FACE forms being reviewed should include in total at least 20% of total expenses incurred to date by the IP.

2) Obtain from the IP the detailed transaction lists for the amounts reported in the selected FACE forms.

3) Select a minimum of 10% by value of transactions reported on the selected FACE form(s). The sample should focus on:
   a. Expense categories where known issues have previously been identified that may indicate increased risk, including taking into account Programme Monitoring results.
b. Select known historically sensitive account categories e.g. procurement of goods and services, travel, consultants if they have significant expenses incurred.
c. Identify and select a sample from expense categories that are materially over budget.
d. Sample at random from other categories of expenses.

4) Carry out the spot check procedures listed in Appendix IX of the Framework and document the results. If no significant issues (see guideline on significant issues below) are noted this would complete the review of transactions.

5) If any significant issues/exceptions are noted, expand the scope of the review by an additional 10% of the selected FACE form’s transactions, with the selection focused on similar types of transactions to the exceptions i.e. similar expense categories, and/or approved by the same personnel. At this stage, judgment and experience are particularly important. If the spot check is being carried out by internal UNDP staff, they should discuss the issues noted and proposed increase in scope with the UNDP HACT Focal Point, who may contact the HQ HACT Focal Point for further guidance if necessary. If no additional issues are noted this would complete the review of transactions. Should further significant issues be noted, refer to Table 4 above for required change of the Adjusted Risk Rating and follow up actions. As noted above, any proposed deviation from the guidance in Table 4 should be discussed with the HQ Focal Point.

6) At any stage, if any potentially fraudulent transaction is discovered, the reviewer must immediately report them to the UNDP HACT Focal point, who is required to inform the UNDP HQ Focal point to agree on a course of action. Staff members and other personnel also have the obligation, in accordance with UNDP’s Anti-Fraud Policy, to report information pointing to fraud involving UNDP staff members or affecting UNDP funds and assets.

A management letter should always be included in the scope of UNDP non-shared IP spot checks

Selection of transactions for spot checks involving Shared IPs (i.e. common IP)

For shared IPs, the following guidelines apply to selecting the sample of transactions:
1) As noted in Section 9.17 of the Framework, “spot checks are Work plan or project based (i.e. for an IP implementing multiple WPs, a spot check is performed for each WP the IP implements)”. The agencies that share the IP should each select the target FACE form(s) for their WPs/projects with at least 20%, but no more than 30%, of total expenses incurred to date for the specific WP/project.
2) A third party should be used to carry out shared IP spot checks, and a management letter should always be included in the scope of spot checks; with the cost shared between the agencies.
3) The party undertaking the spot check would select a minimum of 10% by value of transactions reported on each of the selected FACE form(s), with an upper limit of 3% of total expenses incurred to date by WP/project. The sample should focus on:
   a. Expense categories where known issues have previously been identified that may indicate increased risk e.g. results from programme monitoring.
   b. Select some traditionally sensitive account categories e.g. procurement of goods and services, travel, consultants if they have significant expenses incurred.
   c. Identify and select a sample from expense categories that are materially over budget.
   d. Sample at random from other categories of expenses.
4) Carry out spot check procedures listed in Appendix IX of the HACT Framework. If no significant issues were noted (see guideline on significant issues below), this would complete the review of transactions.
5) If any significant issues are noted, expand the scope of the review for the specific WP/project by an additional 10% of transactions in the selected FACE forms, with the selection focused on similar types of transactions to the exceptions i.e. similar expense categories, and/or approved by the same personnel. At this stage, judgment and experience are particularly important. If the spot check is being carried out by internal staff, they should discuss the issues noted and propose an increase in scope with the Inter Agency HACT Coordinator, who would liaise with the individual agency focal points to provide common guidance. The UNDP HACT Focal Point should consult...
with the HQ Focal points if and as necessary. If no additional issues are noted this would complete
the review of transactions. Should further significant issues be noted, the Inter Agency HACT
Coordinator should bring the individual agency focal points together to agree an Adjusted Risk
Rating for the IP and additional revised rating, for UNDP WPs/projects, refer to Table 4 above for
required impact to the Adjusted Risk Rating and follow up actions. Any proposed deviation from
the guidance in Table 4 should be discussed with the respective HQ Focal Points.

At any stage, if any potentially fraudulent transactions are discovered, the reviewer must immediately
report them to the UNDP HACT Focal point, who is required to inform the UNDP HQ Focal point to
agree on a course of action. Staff members and other personnel also have the obligation, in
accordance with UNDP’s Anti-Fraud Policy, to report information pointing to fraud involving UNDP
staff members or affecting UNDP funds and assets.

Guidance on “Significant issues”

There are two broad types of issues that spot checks may identify:

<table>
<thead>
<tr>
<th>Type of issue</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) The IP’s processes and internal controls were not working as intended e.g.</td>
<td>Increased risk of erroneous</td>
</tr>
<tr>
<td>certain key controls are not being properly followed or there has been</td>
<td>or fraudulent transactions</td>
</tr>
<tr>
<td>significant turnover of key staff and adequately qualified/trained</td>
<td></td>
</tr>
<tr>
<td>replacement staff was not immediately in place.</td>
<td></td>
</tr>
<tr>
<td>b) Transaction errors e.g. misclassification of expenses or reporting errors</td>
<td>May indicate a failure of key</td>
</tr>
<tr>
<td></td>
<td>system controls</td>
</tr>
</tbody>
</table>

Depending on which of the issues above arise, the Country Office should take the following actions:

a) IP internal controls not working as intended: The office should review the detailed reasons reported
   for the failure in internal controls and inquire whether they have been corrected.
   - If they have not been corrected, the office should document the issues noted, the follow up actions
taken and the decision of the office - in terms of changing the Adjusted Risk Rating and the
associated CTM - approved by the Country Director or Resident Representative.
   - If they have been corrected, the office should consider increasing the scope of transaction testing
for the period controls were weak, including the option of commissioning a Special Audit, and
document the decision made - approved by the Country Director or Resident Representative.

b) Transaction errors: The office should review the types of transaction errors and:
   - Inquire and evaluate why the IPs internal controls failed to pick up and correct the errors earlier
   - Consider extending sample testing to determine whether the weaknesses were systemic.

If the weaknesses are systemic and the underlying reasons have not yet been addressed, it is likely
that they will be repeated; on the basis of which the office should consider changing the Adjusted Risk
Rating and the associated CTM, and document the decision made, approved by the Country Director
or Resident Representative. In both cases, the office should document the decision made, approved
by the Country Director or Resident Representative, and inform OAI with a copy to the HQ Focal
Point.
Annex B: Additional guidance on the internal control and financial audits

Internal control versus financial audits
As noted in Section 9.10 of the HACT Framework and in Table 2 above (UNDP specific), depending on the Adjusted Risk Rating there are two types of scheduled audit: Internal Control audits and financial audits. A special audit can be either an internal controls or Financial audit, depending on the nature of the specific issues and concerns that triggered the special audit. See table 5 of the Framework for potential triggers for a special audit.

Also, additional information on audits of NIM/NGO projects can be found here. It provides additional guidance under the following conditions:
- Procedures when audits cannot take place, due to crisis or other prevailing conditions;
- Procedures for projects under full and complete “CO Support to NIM”

Planning
Under HACT, audits are risk based, rather than solely on the basis of a fixed dollar threshold. As noted in Table 3, Financial Audits should be scheduled annually, for IPs rated Significant or High Risk, in the third or fourth year for low risk and in both the second and fourth year for medium risk. In UNDP Financial Audits the requirement for financial audits is determined at the project workplan level, and one IP could implement multiple workplans/projects. Guidance on financial audits of WPs is provided here.

All micro assessed IPs with an Adjusted Risk Rating of Significant or High, and that directly incur expenses of US$100,000 or greater or equal in any year, will be subject to a financial audit. Expenses incurred by UNDP directly are not counted in meeting this threshold and are not subject to external audit.

The Country Office HACT Focal Point must inform OAI, copied to the HACT HQ Focal Point, when any of the following happens:
1. The Micro Assessment (MAP) is completed, so that OAI is aware of the country’s programmes and the IP risk profiles.
2. The Assurance Plan is completed, so that OAI has a record of the audits that are scheduled.
3. Any changes to an IPs risk rating and changes in the Assurance Plan.

The information above will provide OAI with a comprehensive understanding of which IPs need to be audited, when and to what extent i.e. internal control audit or financial audit, and will be housed in the dedicated UNDP HACT Monitoring Site to be created.

Pursuant to the interagency Terms of Reference for HACT Audits, UNDP Country Offices should provide the third party service provider carrying out audits with the following:

<table>
<thead>
<tr>
<th>Term in inter agency guideline</th>
<th>Specific document(s) in UNDP terminology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Expenses</td>
<td>CDR</td>
</tr>
<tr>
<td>Statement of Cash Position</td>
<td>NIM advances report</td>
</tr>
<tr>
<td>Statement of Assets</td>
<td>Fixed assets (if any)</td>
</tr>
<tr>
<td>Statement of Inventory</td>
<td>Medical supplies (Global Fund projects only)</td>
</tr>
</tbody>
</table>

Implementation
Section 9 of the HACT Framework provides detailed guidance on both types of audit, including sample terms of reference internal control audits (Appendix XII) and Financial Audits (Appendix XIII). In addition a Terms of Reference (TOR) for a Management Letter and a sample management letter template are provided in Appendix XI.
To obtain cost efficiencies and consistency of deliverables it is preferable to use a regional or global third party qualified service provider retained on an LTA contract, selected using UNDP procurement procedures or commonly procured within the UN Country team (UNCT). Further efficiencies and savings may accrue if the same provider that will carry out the scheduled audit is retained to carry out spot checks, as long as that is discussed early, when planning the spot checks.

For shared IPs, the Country Office is responsible for coordinating the audit where UNDP is the lead agency (see 2.6 above). Table 5 below provides guidelines on triggers that prompt a change in the Adjusted Risk Rating based on results from audits.

For shared IPs, the lead agency is responsible for proposing a change in micro assessment risk rating and informing the other agencies, in coordination with the HACT Inter Agency Focal Point. When there is disagreement between the agencies on proposed changes to the micro assessment risk rating:

1) At the country level the HACT Inter Agency Focal Point negotiates with the agencies to come to a common position.

If the UNCT is unable to come to an agreed position, the issue should be referred to the Inter Agency Comptrollers Group, through the respective HQ HACT Focal Points.
### Annex C: Key documents to be uploaded on HACT monitoring site

The HACT related documents should be uploaded to the UNDP HACT SharePoint site:

<table>
<thead>
<tr>
<th>Document</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Macro Assessment</td>
<td>Once per programme cycle</td>
</tr>
<tr>
<td>2) Micro Assessment Plan (MAP)</td>
<td>In advance of each programme cycle, then updated annually</td>
</tr>
<tr>
<td>3) Final Micro Assessments, including Country Office response to Micro assessment, signed by the Country Director or Resident Representative, which documents UNDP’s:</td>
<td>When micro assessment completed</td>
</tr>
<tr>
<td>- Understanding of the assessment</td>
<td></td>
</tr>
<tr>
<td>- Understanding of the assessment of the IPs fraud prevention policy</td>
<td></td>
</tr>
<tr>
<td>- Understanding of the overall risk rating</td>
<td></td>
</tr>
<tr>
<td>- Recognition of the risks identified and their impact on UNDP’s programmes with the IP, including programme design</td>
<td></td>
</tr>
<tr>
<td>4) Report on determination of IP’s Adjusted Risk Assessment that takes into account the micro assessment rating, as well as other available information, including:</td>
<td>Once per programme cycle.</td>
</tr>
<tr>
<td>- Results from the Macro Assessment</td>
<td></td>
</tr>
<tr>
<td>- Information on the strength or weakness of IP procurement process</td>
<td></td>
</tr>
<tr>
<td>- Past experience with the IP</td>
<td></td>
</tr>
<tr>
<td>- The Country Office’s own capacity</td>
<td></td>
</tr>
<tr>
<td>5) Assurance Plan</td>
<td>In advance of each programme cycle, updated whenever Adjusted Risk Rating and/or planned assurance activities change</td>
</tr>
<tr>
<td>6) Country Office documentation of results of its analysis and the decisions made as a result of the spot checks, including changes in the Adjusted Risk Rating and/or Cash Transfer Modalities.</td>
<td>When available.</td>
</tr>
<tr>
<td>7) Assurance Monitoring Dashboard</td>
<td>Frequent – at least quarterly</td>
</tr>
<tr>
<td>8) Any reported or suspected cases of fraud</td>
<td>Ad hoc</td>
</tr>
<tr>
<td>9) Audit reports and Management Letters</td>
<td>Should be uploaded into CARDS. In the HACT SharePoint site, a note should be added that such reports for the project have been received and uploaded on CARDS.</td>
</tr>
<tr>
<td>10) Country Office reports that documents the results of the office’s analysis of each audit report and management letter, and decisions made, including changes to Adjusted Risk Ratings and Cash Transfer Modalities</td>
<td>When available.</td>
</tr>
</tbody>
</table>
Annex D: Roles and Responsibilities in implementing the HACT framework

The key roles and responsibilities in implementing the HACT framework are provided in figure 1.

**Figure 1. Roles and Responsibilities in Implementing the HACT Framework**

<table>
<thead>
<tr>
<th>Headquarters: Oversight</th>
<th>Inter-Agency Comptroller Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters: Execution and guidance</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Regional</td>
<td>Regional Director</td>
</tr>
<tr>
<td>Country</td>
<td>Country Representative</td>
</tr>
</tbody>
</table>

**Headquarters Level**

**Inter-agency Oversight**

The primary inter-agency oversight body is the Inter-agency Comptroller Committee. This body performs the following activities:

(a) Resolves emerging issues not addressed by the revised HACT framework that relate to shared IPs and/or shared segments of the HACT framework;

(b) Resolves HACT issues not resolved by the United Nations country team (UNCT) (which have thus been escalated), especially pertaining to fiduciary and reputational issues of the United Nations system; and

(c) Resolves HACT joint audit issues requiring action at the United Nations system level.

This body is composed of the comptrollers from UNFPA, UNICEF and UNDP, as regular members, and from one specialized agency, on a rotational basis. This body meets based on requests from
UNCTs and/or from agency HQ focal points who may identify substantive issues emerging from agency-specific monitoring. The detailed modus operandi of this body are established by this body.

**HACT Advisory Committee**

The primary inter-agency mechanism for the HACT framework at HQ level is the HACT Advisory Committee. It serves in an advisory capacity only, providing inter-agency policy advice, technical guidance and support to agencies implementing the HACT framework. The committee consists of individuals from finance and programme units from the various agencies.

**Inter-agency Monitoring**

The United Nations Development Operations Coordination Office (DOCO) is the technical support unit for the United Nations Development Group (UNDG), which provides the link between UNDG discussions at HQ and the work of the United Nations development system at country level. DOCO’s work focuses on supporting and strengthening the Resident Coordinator system with funding, policy guidance and training.

In terms of the HACT framework, DOCO provides annual monitoring of HACT implementation at an aggregate agency level on behalf of UNDG by consolidating information reported to it by the respective agencies. Results of this monitoring are reported to the HACT Advisory Committee so its members can analyse trends and patterns relevant to implementation and provide direction to address challenges associated with achieving full implementation. This analysis must also be validated by the agencies.

**HQ-level Agency Accountability**

UNDP implementing the HACT framework is accountable for implementing required components, such as assessments and assurance activities.

UNDP Administrators are responsible for identifying an appropriate mechanism, such as executive management team meetings, for receiving updates on UNDP HACT implementation efforts and any issues arising, in particular where there may be variances between HACT and UNDP operating models.

**Agency HQ focal point**

UNDP shall designate a HQ focal point, which may be one person globally or one person per region, as decided by UNDP senior management. These individuals are members of the HACT Advisory Committee.

The primary focal point responsibility is systematic monitoring of country office implementation of the HACT framework. The focal point becomes a reference point for county offices, providing guidance and technical support. He or she also identifies implementation issues that may need to be raised with the comptroller, UNDP leadership and/or HACT Advisory Committee.

Where IPs are shared and agencies perform activities together, the agency HQ focal points from each agency work together to ensure that activities at country level are appropriate.

**Country Level**

**Country Level Inter-Agency Accountability**

**Resident Coordinator**
The Resident Coordinator is not directly accountable for the funds disbursed by each agency; this remains within the purview of the Country Representatives. However, the Resident Coordinator is responsible for:

- Supporting agencies implementing the HACT framework, for example, by promoting the benefits of the framework with IPs and government officials;
- Encouraging agencies to coordinate activities where there are shared IPs and creating a working environment that helps agencies to identify and plan for coordinated activities; and
- Coordinating the development of the macro assessment, with the support of United Nations agencies, and regularly reviewing the status of HACT implementation.

**HACT Working Group**

Each country is strongly encouraged to establish a HACT working group, which is a sub-group of the UNCT, comprised of operations and programme staff from each participating agency. The working group should meet regularly and be responsible for planning and facilitating the implementation of the HACT framework in the country. Specific duties may include:

- Preparing the work plan and budget of the HACT working group;
- Reviewing annual agency assurance plans;
- Planning periodic trainings for agency and IP staff regarding the HACT framework;
- Advising on risk management approaches in implementing HACT;
- Monitoring implementation;
- Developing a central repository of all HACT assessments, reports and materials; and
- Sharing lessons learned and best practices.

The participation of IPs in the HACT working group, noted as a current practice in some countries, has been seen as a way to promote national ownership and increase capacity, as it helps IPs to understand the expectations and requirements of the HACT framework.

**HACT inter-agency coordinator**

Designation of a HACT inter-agency coordinator for implementation of the HACT framework is strongly recommended. This person’s primary role is to identify, encourage and facilitate shared assurance activities where possible. She or he also supports agencies in discussing the benefits and approach of the HACT framework with IPs. The inter-agency coordinator is responsible for data collection and coordination across agencies and for maintaining consolidated records. These include the list of country IPs, planned and actual cash transfers, cash transfer modality data, assessment results and assurance plans and results. The coordinator is also responsible for ensuring that agencies post their agency assurance plans and related information on a shared site available for HQ monitoring. Additionally, the HACT inter-agency coordinator provides secretarial support for the HACT Working Group.

The responsibilities may be added to an existing position if the role is not seen as requiring a full-time commitment. One of the HACT focal points in the country may be able to assume this role. Each agency is responsible for establishing this role.

**Country Level Agency Accountability**

**Country Representative**
UNDP Country Representative has primary responsibility and accountability for implementation of the HACT framework at country level, and is also accountable for all funds disbursed by UNDP in that country. Where agencies have shared IPs, the UNDP Country Representative remains ultimately accountable for the assurance of cash transfers by UNDP to the IPs. UNDP Country Representatives also report to the UNDP HQ focal point on implementation of HACT processes such as assessments and assurance activities. This can be guided by the metrics shown in figure 2.

Figure 1. Metrics for Implementation of HACT Processes

<table>
<thead>
<tr>
<th>Implementation area</th>
<th>Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assessments</strong></td>
<td>Macro assessment has been completed.</td>
</tr>
<tr>
<td></td>
<td>Micro assessments, deemed necessary through micro assessment planning, have been completed or high risk has been assumed.</td>
</tr>
<tr>
<td><strong>Assurance</strong></td>
<td>UNDP assurance plan has been completed and implementation is on track. Adjustments to the plan have been documented as necessary and at least annually.</td>
</tr>
<tr>
<td></td>
<td>For shared IPs, planned assurance activities have been detailed in the UNDP assurance plan and implementation is on track. Adjustments to the plan have been documented as necessary.</td>
</tr>
<tr>
<td><strong>Capacity development</strong></td>
<td>Capacity development has been completed as required and communicated by UNDP HQ.</td>
</tr>
</tbody>
</table>

**Agency HACT focal point**

UNDP shall identify a HACT focal point, who serves as the key point of contact for HACT implementation in the Country Office. This person is responsible for managing or supporting HACT activities and arising issues, according to country office structure. This role may be suitable for an existing position and may not necessarily require a full-time commitment; this is decided by UNDP Country office.

The HACT focal point is also responsible for working with the HACT inter-agency coordinator (discussed above) to share information as necessary for effective coordination and to develop best practices at country level.

**Agency programme staff**

Effective implementation of the HACT framework requires consideration of HACT as part of regular programme planning and monitoring activities. It is important to embed HACT activities in UNDP programmatic activities, such as by combining financial monitoring procedures with programmatic monitoring activities. This will minimize the burden on IPs and achieve the most efficient use of resources.

Equally, UNDP programme staff are an important part of the capacity assessment process. Programme staff observations about the IP’s activities should be considered throughout the programme cycle and should inform assurance activities, leading to adjustments if necessary.
Regional Level Agency Accountability

Where regional offices are providing cash transfers directly to IPs, regional offices are accountable for those transfers and the HACT framework applies. The roles and responsibilities of regional offices with respect to oversight of the HACT framework implementation by country offices is decided by UNDP HQ focal point.

HACT accountabilities are summarized in figure 3.

Figure 2. HACT Accountabilities

<table>
<thead>
<tr>
<th></th>
<th>Country</th>
<th>Regional</th>
<th>Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency</td>
<td>Country Representatives</td>
<td>Decided by each agency</td>
<td>Administrators</td>
</tr>
<tr>
<td>Inter-Agency</td>
<td>Country Representatives for shared IPs</td>
<td></td>
<td>Administrators</td>
</tr>
</tbody>
</table>