

FREQUENTLY ASKED QUESTIONS

HARMONIZED APPROACH TO CASH TRANSFER (HACT) 2014 FRAMEWORK

GENERAL ISSUES

1. Q: Under which guidelines do agencies participate in HACT implementation?

A: The overall guidance is the UNDG HACT Framework. Each agency adopting the UNDG HACT Framework is responsible for mainstreaming HACT principles and processes in their guidelines and defining specific details such as thresholds, criteria, coverage of spot checks, etc., in line with the UNDG HACT Framework. At Headquarters level, agencies are coordinating and cooperating in developing and implementing their specific guidance and procedures through inter-agency mechanism.

2. Q: Besides the CPAP stipulations on government commitments on HACT, is it required to have a separate HACT agreement signed between UN and the host government?

A: No. However, UN Country Team may put key issues/actions agreed with the host government on HACT implementation in an official documentation if they so wish.

3. Q: In a crisis or post-crisis country where the priority of the Government is not the UN agencies' day to day work or the implementation of new mechanism, how can we launch the HACT process since we have to contact the Government first and sign an HACT agreement to launch the macro-assessment (we are formulating our CCA)?

A: HACT Framework is applicable in all situations and circumstances, including crisis and post-conflict countries, as long as there is cash transfer from UN agencies to implementing partners. As mentioned above, a separate HACT agreement with the host government is not necessary. If the host government is unable to cater for macro-assessments, please refer to Question 10 below.

4. Q: What does it take for a country to be fully HACT compliant?

A: The concept of HACT compliance is no longer relevant. HACT is the way of doing business in as far as cash transfers are concerned. HACT principles and processes have been incorporated into agency policies and procedures. All country offices have to implement all HACT requirements and procedures with effect from the date designated by their agency in accordance with agency specific policies and procedures. For UNDP and UNICEF, the effective date for full implementation of HACT is 1st January 2015 while for UNFPA it is January 2016.

5. Q: Given the bottlenecks faced in HACT implementation, mainly due to non-alignment of agency practices, would it be better to agree at HQ level on harmonized roll-outs among agencies rather than each agency having its own roll-out versions? It may cause difficulty to HACT implementation at the CO level in the next 2-3 years.

A: *It might have been better to harmonize the roll-out process among agencies. However, the difference in approaches is not a random choice, but a necessity due to the higher risk that is involved for some agencies. UNFPA, for example, is taking a high risk in light of the past qualification of its financial statements due to inadequate assurance over funds implemented by partners. The only difference is though that UNFPA country offices (COs) will continue NEX audits for 2014 and 2015 while participating in all other HACT processes. However, the agencies are collaborating very closely at HQ and are committed to address any bottlenecks that may arise from the slightly different roll-out processes.*

6. Q: In our country, we developed the DiPS (Direct Programme Support) adaptation of the HACT Framework by the UNCT. What do you advise us in light of the issuance of the 2014 Framework?

A: *Any localized guidelines will have to be adjusted to reflect the revised HACT Framework as well as changes in agency-specific guidelines.*

7. Q: We have almost all our projects with support to NEX and have a letter with the government for support services which basically is working as DIM modality (we do not transfer any funds to the IP) Will the new framework affect the support to NEX modality?

A: *HACT procedures do not apply to direct agency implementation, but only to ‘cash transfers to implementing partners’.*

8. Q: What to do when a government refuses to implement HACT?

A: *When a government signs a One Programme, a CPAP, or a similar programming document, they commit themselves to compliance with UN agencies’ (UNDP, UNICEF and UNFPA) rules for the receipt of funds. HACT is part of the management rules and HACT related clauses are included in the standard text of the CPAP or equivalent programming documents. The 2014 Framework is flexible and can be applied to different country contexts. If government IPs wish to receive cash transfers from UNDP, UNICEF and UNFPA, they need to observe the HACT Framework.*

9. Q: Is there a ceiling for the amount of funds that an IP can receive from the various UN agencies?

A: The HACT Framework doesn't stipulate how much each IP can receive from UN agencies. This information may be found in programmatic documents or agency-specific programmatic management and/or operational management policies/ procedures.

10. Q: What will be the next steps at country level to implement the new HACT framework and the time frame for this?

A: UNDP and UNICEF offices are expected to implement the 2014 Framework immediately, with full implementation by all countries coming into effect from 1 January 2015. UNFPA will pilot in 2014 and 2015 and start full implementation in 2016. Agency-specific guidance detailing the next steps of implementation at country level is available. Please kindly contact the agencies' HACT focal points at HQ for further details.

CAPACITY ASSESSMENTS

11. Q: We are already conducting the macro-assessment. Do we have to restart the macro-assessment process following the issuance of the 2014 HACT Framework?

A: You will not have to restart the macro-assessment if the process is at the final stage. However, as much as possible, UNCT are encouraged to use the revised terms of reference included as Appendix I of the 2014 Framework as these include improvements in the methodology and checklist. Offices may also refer to agency specific guidance wherever relevant.

12. Q: What can agencies do when the host government is against the assessment, specifically the macro-assessment, and all efforts to convince the government was not successful?

A: There are instances in which it appears to be not possible to get a macro-assessment done. The HACT Framework remains applicable in such cases. Macro-assessment is a desk review of already existing assessments and does not require the involvement of government, nor approval. The UNCT and UN agencies should continue to advocate for a macro-assessment. There are two possible scenarios:

Scenario 1: The Government is unable or unwilling to support the macro-assessment. However, useful documents that address the country's Public Financial Management (PFM) capacity are available (see examples in Section 7.4 of the Framework).

In this case, the UN agencies should commission a third party service provider to carry out a desk review of documents available (including those listed in Section 7.4 of the Framework, latest previous macro assessment available (if any), UN agencies' experience in previous programmes involving the national government's systems) or review results of existing assessments to identify macro level risks that should apply to UN agencies' programming in the country and the capacities of the SAI.

Scenario 2: The Government is unable or unwilling to support the macro-assessment, and little or no relevant documents that address the country's Public Financial Management (PFM) capacity are available.

Facing this scenario, the UNCT should advocate other development partners (e.g. World Bank, IMF, EU, etc.) to conduct assessments relating to PFM. Also, the UN agencies should proceed to the next stage of HACT, i.e. micro-assessment and, during both the micro-assessment planning and execution phases, take into account the fact that an analysis of macro level risks is not available. In the absence of a macro-assessment, the agencies cannot use the Supreme Audit Institution (SAI) for audits of government implementing partners since its capacity is not assessed.

13. Q: What to do if there are no available reports to be used for conducting a new macro-assessment?

A: Similar to scenario 2 in the above question, the UNCT should advocate with the government and other development partners to conduct a PFM assessment, in cooperation with the UN. In no circumstance will the UN conduct the assessment by itself. If development partners and the government are not willing to carry out the assessment, UN agencies should still use the previous macro-assessment (until new documents are available) and proceed to the next stage – micro-assessment of IPs – keeping in mind that the macro level risks and capacities of the SAI are not re-assessed. Offices are also encouraged to consult agency specific guidance as relevant.

14. Q: We have recently completed our micro-assessment. What are the implications of the launch of 2014 HACT Framework?

A: You will not have to repeat your micro assessments. You will apply the new checklist once you assess any new Implementing Partners (IPs) or re-assess your existing ones. We do recommend though that you apply the procurement section of the new micro assessment to IPs which are expected to undertake substantial procurement with UN funds.

15. Q: With regard to micro-assessment and the added procurement section, should IPs be assessed as per UN agency's procurement policy?

A: In all areas, IPs are assessed against their own system, policies and procedures. That applies to procurement too. The aim is to assess the level of risk associated with transferring cash to the specific IPs, in this case in relation to procurement activities. The risk rating is also taken into consideration when selecting the appropriate cash transfer modality and the type and frequency of assurance activities.

16. Q: Are micro-assessment questionnaires for government partners the same as those for NGO partners?

A: Yes, but there are some sections in the questionnaire that may apply differently to government partners. In the section on audit, for example, governments' financial statements are audited by the SAI and this can be indicated by the assessor.

17. Q: For small IPs wherein they combine functions, e.g. Finance/Admin or Supply/Procurement, how will the assessment be done?

A: The assessment may then find insufficient segregation of duties and this will influence the risk rating of the implementing partner for a particular subject area as well as overall risk rating.

18. Q: What might be the relationships between IP capacity assessment and a micro assessment of IP? How do they relate to each other?

A: The micro assessment assesses the IP's capacity – and any lack thereof, with regards to financial and procurement management which is then expressed as risk. Micro assessment identifies the risk of working with the IP by examining the controls, policies and procedures that are in place. Some agencies have separate IP capacity assessments (normally conducted when selecting an IP for a programme/ project/set of activities) to assess IP's programmatic implementation/delivery capacity. Both the IP capacity assessment and the micro-assessment may be required depending on agency guidelines. Going forward, agencies may aim to fully harmonize the different assessment tools.

19. Q: During micro-assessment, there can be weaknesses identified at IP level for which substantial funds are required to addresses the gaps. The IP may not have financial resources to address those gaps. What would be the position of the UN agencies on this? Also, at the time of spot checks, Agencies may find that these gaps were not addressed. Any advice on how to go about it?

A: Agencies acknowledge that financial and procurement management capacity is crucial for any implementing partner to effectively contribute to the achievement of sustainable results. However, UN agencies may not be the best placed to address financial and procurement management gaps of their implementing partners identified through micro assessments or assurance activities such as spot checks. Each agency will therefore use its guidelines to decide on the type and scope of capacity development actions to take. Offices should consult agency specific policies, procedures and guidelines on how to proceed.

20. Q: What is advised when dealing with high risk micro-assessed partners? Can COs with successful HACT implementation tell us what they do?

A: High risk IPs should receive the type and number of assurance activities advised by the HACT Framework and more specifically guided by agency procedures. . The cash transfer modality should be guided by agency-specific procedures.

21. Q: In the old framework, we use to piggyback on micro-assessments done by other agencies to see how best we could work with an IP. With this new/revised framework can we do the same or each agency needs to do their own micro-assessments?

A: This remains the same in the 2014 Framework. If one agency has already assessed the IP, the other can rely on that assessment when they start working with the same IP. If the agencies share the IP prior to (re)assessment, one is identified as lead agency and manages the assessment process on behalf of the other agencies. All agencies will use the assessment results. The cost of undertaking the assessment is shared amongst the agencies.

22. Q: Who should conduct the micro-assessments for small agency specific IPs?

A: Micro-assessments are always conducted by independent professionals. For very small IPs, micro-assessment may not be necessary. Please refer to agency-specific procedures for details on threshold(s) for micro-assessment of IPs.

23. Q: Can micro-assessment be done by staff?

A: The 2014 Framework specifies that micro-assessments should be undertaken by a third party service provider (for objectivity, independence, and professional quality).

24. Q: Does the guide address the risk rating determinants?

A: The HACT Framework contains TORs for the micro-assessment and an improved methodology that guides the determination of risks and the rating. Agencies have specific guidelines on how to determine risk in the absence of a micro-assessment.

25. Q: The partners often ask about the basis for rating a partner on the 8 criteria used for micro-assessing the partner. Have we looked into coming up with a guidance on this in the revised framework? The partners may agree with the findings but not on the rating that comes through.

A: Please refer to the TORs for micro-assessment in the 2014 Framework for detailed guide on the risk rating determinants and how to calculate the risk rating for each subject area and the overall risk. The TORs have been revised and includes improvements to the TOR in the previous HACT Framework. There is always likely a small element of subjectivity in any assessment.

26. Q: Micro-assessment is not a pass or fail assessment so how do we choose an IP over another for a modality?

A: Each agency has its own policies on selection of IPs. Please refer to agencies' specific policies and guidelines for more information.

27. Q: We are in a country where political instability for the past 3 years and changes in governments have hindered both macro-assessments and micro-assessment of government IPs. Consequently, government IPs have been assumed as high risk. Any advice?

A: Assuming high risk for an IP in the absence of assessments is prudent. If substantial procurement is involved and the procurement capacity cannot be assessed, procurement should be implemented by the agencies and not the IP. Similarly, the SAI should not be used to conduct audits. Agency specific procedures will advise how such IPs and risks should be treated internally. The results of audits can form a lower level of assurance when it comes to the determination of risk.

28. Q: For UNFPA pilot countries in 2014, will they undertake micro-assessment for new (all) IPs or IPCAT or both? For non-pilot countries, will they do only micro-assessment or IPCAT?

A: UNFPA pilot countries (and all other countries) will undertake micro assessments for all IPs that need to be assessed or re-assessed as per UNFPA guidelines. Pilot countries (and all other countries) do not have to re-assess all their IPs using the 2014 ToR if they have a valid micro assessment already in place. IPCAT is required for all new IPs or those that have never been assessed. UNFPA COs should please contact Mona Khurdok at khurdok@unfpa.org or use the integrated service desk for questions around IPCAT and micro assessment.

ASSURANCE ACTIVITIES/AUDITS

29. Q: Can you elaborate on the internal control audit? Who will be doing it? When?

A: An independent audit firm or the government's Supreme Audit Institution (SAI), where found suitable following the macro-assessment (or where required by law), will undertake the internal control audit. The audit will be undertaken at a frequency and time scheduled by the agency(ies) based on agency specific guidelines . This also applies to financial audit.

30. Q: Will HACT replace NIM/NEX audits?

A: Yes, for agencies adopting HACT. For UNDP, this will be effective as of March 2014 whilst for UNFPA, as of January 2016 for all offices.

31. Q: In terms of assurance activities, in case of a high-risk IPs, do we have the right to review the implementation of the budget as well as the supporting documents (e.g. invoices, etc.)?

A: No supporting documentation is required with the FACE form. The supporting documents (invoices, contracts, etc.) should be checked/reviewed during spot checks. In the interest of inter-agency harmonization, agencies should comply with this principle. However, agencies may advise on exceptional cases.

32. Q: Do lower risk IPs mean low- and moderate-risk IPs, and higher risk IPs mean significant- and high-risk IPs, or it's decided by COs (which would lead to different treatment of same IP by different COs/ agencies, and thus may raise issue of consistency and credibility)?

A: Yes, lower risk IPs include low- and moderate-risk ones, and higher risk IPs cover significant- and high-risk ones. These terminologies are used in the 2014 Framework in relation to the type of audit required for IPs. For lower risk partners (low and medium risk), an internal control audit is used. For higher risk partners (significant and high risk), financial audit will be used by UNFPA and UNDP and applies to UNICEF as well in the case of shared implementing partners.

The Framework however clarifies that the type of audit may evolve over time: for example, medium risk partner can be audited using financial audit if significant issues/concerns were identified during spot checks; and significant risk partner may shift to internal control audits following 2 unqualified audits.

33. Q: What check list program staff have to use for programmatic monitoring activities?

A: Each UN agency has developed its own programmatic monitoring check lists. Please refer to agency guidance for more details.

34. Q: In our country, the execution modality for most of our projects is Support to NIM and these projects are currently not subject to NIM Audit. However, with HACT implementation, the audit will apply. Please advise.

A: Yes, HACT will apply to all COs and whether an IP is subject to audit depends on agency-specific thresholds and other requirements for auditing.

35. Q: Internal control and financial audits for common partners will be joined? So this means common thresholds?

A: *Agencies may have different thresholds for requiring an audit (internal control or financial). When multiple agencies require an audit based on the agency-specific thresholds, the standard TORs are used and a lead agency is identified to manage the audit process on behalf of other agencies and the cost is shared.*

36. Q: When we approve Direct Cash Transfer (DCT) report, we actually acknowledge that the implementation is fairly done? So what is the value added for a post spot check?

A: *When UN staff (usually programme officers) approve the reported expenditure in the FACE form, they are certifying that the activities for which funding was provided have taken place as planned. This is done based on their best knowledge of the implementation progress gained, largely, from programme monitoring. Spot checks are conducted to obtain assurance that the amounts reported on the FACE form are accurate and that expenditures were in accordance with the IP's procedures and agreements with the UN agency.*

37. Q: Who establishes the threshold for audit? UNCT or HQ or government?

A: *IPs are now selected for audit based on their risk rating in the micro-assessment (or otherwise established as per agency guidelines) as well as some materiality considerations by the agencies. These materiality thresholds differ from agency to agency due to the significant difference in funding provided. In any case, the criteria and thresholds are set by the agency Headquarters and, for shared IPs, the guidance is provided by the three agency HQs together. Thresholds are neither set by government nor by the UNCT.*

38. Q: "Special audits are ... triggered as a result of specific issues and concerns which arise during the programme cycle. The special audit may be either financial or internal control based depending on the nature of the potential or identified issues and concerns."

Observations: Considering "potential issues and concerns" – these basically are threats/ negative risks, so it would be more useful and beneficial if we could take action (e.g., conducting a special audit and consequently implementing necessary mitigation measures) even before they would become real, or bigger, issues; this would present the real value of the quality assurance under HACT.

Questions:

- Can we be more specific about to what degree an (actual or potential) issue would be considered severe/ significant and thus constitute conditions for starting a special audit? (taking into consideration that we need to work with IP and substantiate our position and request for conducting a special audit at their very IP office); and
- Can we quantify such actual or potential issues, e.g., by using a risk-based methodology similar to what is used for UNDP NIM Audit Risk Model?

A: *The trigger for calling for a Special Audit usually originates from material irregularities found during implementation of assurance activities. The circumstances may vary from case to case with different level of risk. It is suggested that you first consult with the CO HACT focal point and CO senior management when such irregularities are identified, and based on the materiality of the risk, consult with the HQ agency specific HACT focal point.*

Agencies' HACT focal points at HQ level would look at current practices amongst the agencies and identify materiality or specific issues. Materiality usually lies between 2-5% of the amount audited. For example, with UNFPA, it is 2% or 10,000\$ to warrant a qualified audit opinion and 50% to warrant an adverse opinion. There is a list of findings that will lead to such an opinion if accompanied by this materiality threshold.

39. Q: What happened to special audit reports?

A: *Special audits are still part of the HACT Framework and can be commissioned when specific issues and concerns arise.*

CASH TRANSFER MODALITIES

40. Q: What's the more realistic cash transfer modality for non-assessed IP in a transition period?

A: *Generally, COs should be prudent in managing the risk with a non-assessed IP. Unknown risk should be assumed to be high depending on materiality of funds and in line with agency specific guidance. In general, we consider reimbursement to be the most conservative cash transfer modality for high risk IPs.*

41. Q: What really drives the choice of cash transfer modality? Is it the "risk" or the agency's "business model"?

A: *In practice, both the risk level and specific agency's business model have impact on the choice of cash transfer modality. Agency-specific guidelines address this issue in more detail. While risk is the key consideration, we cannot ignore the reality that some agencies may not have sufficient staff to process hundreds of direct payments for their IPs and some IPs, for example, may not wish to receive UN direct cash transfers into their accounts, but prefer direct payments.*

42. Q: If the recommended cash transfer modality (CTM) is "direct payment" or "reimbursement" for a specific IP, can we go with "direct cash transfer" instead and increase "assurance activities"?

A: *While risk is the key consideration in choosing a cash transfer modality, UN agency should also take other factors into account. Some agencies may not have sufficient staff to process hundreds of direct payments for their IPs, for example, even if the risk level suggests "direct payment" modality. Final decision on the cash transfer modality to be applied to IPs rests with UN agencies after considering various factors. In cases of high risk level, it is prudent to increase the assurance activities to mitigate the risk.*

43. Q: Sometime some CTMs may not work in CO context while they seem appropriate as per the conclusion of micro-assessment. What's your advice?

A: *The determination of CTMs to be used depends on various considerations, not solely on the risk level. Other factors such as political context, operational capacity (e.g. human resource, financial resource) of UN agencies, geographic distribution of IPs, etc. can play a role in the choice of CTMs. If your context requires you to use for a high risk IP a CTM intended for low risk IPs, you need to manage this increased risk exposure with stronger assurance activities. Specific criteria and requirements may be found in agency specific HACT procedures and guidelines.*

44. Q: Can an IP graduate in the course of the programme cycle from one CTM to another?

A: *Since the choice of CTM is not determined by risk rating alone, changes can happen within the programme cycle. For example, a CO can (and should) change from advances to reimbursement or direct payments if concerns arise during spot checks, programme monitoring visits, FACE review, or audits. Consult agency specific guidelines on selecting the appropriate cash transfer modality for an IP.*

45. Q: In our country, though we operate in a high risk environment, the UNCT decided to operate the Direct Cash Transfer modality. Does the 2014 HACT Framework over-rule such decision or not?

A: *The UNCT's decision on the choice of CTM may remain valid provided it is in line with agency specific guidelines. In your country's case, it is advisable to increase the assurance activities to mitigate the risk and manage the increased risk exposure effectively.*

46. Q: Does "harmonized" mean "using the same CTM for the shared IP"? Don't you see the scenario in which each agency will be using its own CTM based on its own "business model"? Is there still a need for a common assurance activities plan?

A: *No, "harmonized" does not only refer to using the same CTM for a shared IP. This is just one aspect of HACT and often determined by external factors as well as different office capacities of the agencies. "Harmonization" in the 2014 Framework focuses on standardizing the way agencies work with IPs to reduce transaction costs while ensuring joint operationalisation of macro assessments and assessment and audits of shared IPs. Despite varying CTMs applied to a shared IP (e.g. while one agency may make direct payments to an IP, another may not be able to do so and use direct cash transfer), the micro*

assessment and audits are conducted jointly for such IP. It means that agencies that require so should use the lead agency to commission these activities, and use the results jointly.

47. Q: Any expected change on periodicity of direct cash transfer release and reporting?

A: There is no change to this. Disbursement and reporting on cash transfers are to be on a quarterly basis. However, some agencies allow six-monthly disbursements with quarterly reporting. However, some agencies allow monthly or six-monthly disbursements with quarterly reporting. Please refer to agency specific guidelines for more details.

48. Q: Will the new framework keep the rule for the quarterly reporting and advances for the IPs? We have IPs that need higher advance amounts to be able to enter into contracts and they do not report the whole or 80% of the advance in the next quarter as it is not spent but just committed and we have aging NEX advance.

A: The quarterly reporting rule has not changed. Some agencies allow six-monthly advances (UNFPA for example requires quarterly reporting even when six-monthly advances are approved). The agencies have different guidelines on the ageing of overdue advance. Please refer to your agency's HACT focal point at HQ.

49. Q: In the 2014 Framework, the IP signatory for FACE is indicated to be the AWP signing authority. Can delegation of this authority be allowed to other officials within the organization?

A: Generally, yes, it can be delegated. However, proper documentation for the delegation of authority is required.

50. Q: As part of good financial management practice and in accordance with NIM/NEX implementation, when submitting quarterly financial report on DCT, the IP is required to attached bank statement and, to some extent, cash statement included as part of the documentation. Can we advocate that at CO level that all IPs follow the same system when reporting on financial expenditure by all three agencies?

A: No supporting documentation is required with the FACE form. The supporting documents (invoices, contracts, etc.) should be checked/reviewed during spot checks. In the interest of inter-agency harmonization, agencies should comply with this principle. However, agencies may advise on exceptional cases.