

# United Nations Development Group (UNDG)

Proposed Revisions to the  
Harmonized Approach to  
Cash Transfers (HACT)  
Framework

**FINAL**

17 September 2013

[kpmg.com](http://kpmg.com)

# Contents

|                                                     |           |
|-----------------------------------------------------|-----------|
| <b>Acronyms and Abbreviations</b>                   | <b>1</b>  |
| <b>About this Report</b>                            | <b>2</b>  |
| <b>Executive Summary</b>                            | <b>3</b>  |
| <b>1.0 Introduction</b>                             | <b>10</b> |
| 1.1 Background                                      | 11        |
| 1.2 Objectives, Scope and Approach                  | 12        |
| <b>2.0 Key Revision Concepts</b>                    | <b>17</b> |
| 2.1 HACT Applicability                              | 18        |
| 2.2 The HACT Assurance Model                        | 23        |
| 2.3 HACT as a Programme Instrument                  | 24        |
| 2.4 Capacity Development                            | 26        |
| <b>3.0 HACT Governance and Accountability</b>       | <b>28</b> |
| 3.1 Governance and Accountability                   | 29        |
| 3.2 Roles and Responsibilities                      | 32        |
| <b>4.0 HACT Processes</b>                           | <b>38</b> |
| 4.1 Macro Assessment                                | 39        |
| 4.2 Micro Assessment Planning                       | 43        |
| 4.3 Micro Assessment Execution                      | 46        |
| 4.4 Cash Transfers Disbursement and Reporting       | 51        |
| 4.5 Assurance Planning                              | 52        |
| 4.6 Implementation of Assurance Activities          | 57        |
| 4.7 Spot checks                                     | 62        |
| 4.8 Programme Monitoring                            | 68        |
| 4.9 Scheduled Audits                                | 69        |
| 4.10 Special Audits                                 | 76        |
| <b>5.0 HACT Oversight and Monitoring</b>            | <b>77</b> |
| 5.1 Oversight and Monitoring of HACT Implementation | 78        |
| 5.2 HACT Implementation Tracking and Results        | 80        |
| <b>6.0 HACT Guidance and Tools</b>                  | <b>83</b> |
| 6.1 HACT Guidance                                   | 84        |
| 6.2 HACT Tools                                      | 86        |
| <b>7.0 Transition to the Revised Framework</b>      | <b>88</b> |
| 7.1 Transition to the Revised Framework             | 89        |
| 7.2 Implementation Plan for the Revised Framework   | 92        |
| 7.3 Institutionalizing the Revised Framework        | 93        |
| 7.4 Additional Considerations                       | 95        |
| <b>Appendices – refer to separate document</b>      | <b>97</b> |

Restriction on Disclosure and Use of Data – This document contains confidential or proprietary information of KPMG LLP, the disclosure of which would provide a competitive advantage to others; therefore, the recipient shall not disclose, use, or duplicate this document, in whole or in part, for any purpose other than recipient's consideration of KPMG LLP's proposal.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

© 2013 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. NDPPS 142866

# Acronyms and Abbreviations

|                |                                                           |
|----------------|-----------------------------------------------------------|
| <b>AWP</b>     | Annual Work Plan                                          |
| <b>CCA</b>     | Common Country Assessment                                 |
| <b>CO</b>      | Country Office                                            |
| <b>CPAP</b>    | Country Programme Action Plan                             |
| <b>CRM</b>     | Cash Transfer Modality                                    |
| <b>ERM</b>     | Enterprise Risk Management                                |
| <b>FACE</b>    | Funding Authorization and Certificate of Expenditures     |
| <b>HACT</b>    | Harmonized Approach to Cash Transfers                     |
| <b>HACT AC</b> | UNDG HACT Advisory Committee                              |
| <b>IP</b>      | Implementing Partner                                      |
| <b>PFM</b>     | Public Financial Management                               |
| <b>NEX</b>     | National Execution                                        |
| <b>NGO</b>     | Non-governmental Organisation                             |
| <b>NIM</b>     | National Implementation                                   |
| <b>RC</b>      | Resident Coordinator                                      |
| <b>RFP</b>     | Request for Proposal                                      |
| <b>SAI</b>     | Supreme Audit Institution                                 |
| <b>TOR</b>     | Terms of Reference                                        |
| <b>UN</b>      | United Nations                                            |
| <b>UNDG</b>    | United Nations Development Group                          |
| <b>UNCT</b>    | United Nations Country Team                               |
| <b>UNDP</b>    | United Nations Development Programme                      |
| <b>UN DOCO</b> | United Nations Development Operations Coordination Office |
| <b>UNFPA</b>   | United Nations Populations Fund                           |
| <b>UNICEF</b>  | United Nations Children's Fund                            |
| <b>WFP</b>     | World Food Programme                                      |
| <b>WG</b>      | Working Group                                             |

# About this Report

KPMG LLP (KPMG) was engaged to support the revision of the Harmonized Approach to Cash Transfers (HACT) framework.

KPMG provided the first version of this report, recommended revisions to the HACT framework, based on a series of consultations with United Nations staff and document reviews. This final draft reflects feedback provided from several agencies, not just ex-Com agencies, in particular:

- Written feedback and comments on first draft;
- Participation of agencies in three validation workshops on audit and assurance, governance, and other key mechanisms within the framework; and
- Written feedback on a revised audit and assurance section, provided subsequent to the audit and assurance validation workshop.

This report provides KPMG's recommendations for revisions to the existing HACT framework. Given the differing business models and level of implementation across agencies, the recommendations relate to the overarching principles of HACT and do not provide specific thresholds or numeric parameters, as these will need to be determined at the agency level based on what is appropriate for each agency. As was the intention of the original framework, it is expected that agencies develop their own agency specific guidance for HACT implementation which describes implementation of HACT within the context of the agency's business model, organization and reporting structure, and oversight and monitoring mechanisms. These agency specific guides should be consistent with the concepts detailed in the revised HACT framework and should help to 'mainstream' HACT into agency operations, policies and procedures.

KPMG greatly appreciates the participation and feedback from those who were involved in this consultancy. We encourage agencies to consider the agency specific feedback and recommendations provided that has not been reflected in this report in the development of their agency specific guidance.

This report and related appendices provide the generic components, principles and suggestions required by individual agencies to produce their specific agency focused guidance.

# Executive Summary

The Harmonized Approach to Cash Transfers (HACT) Framework was introduced in 2005 as a common operational framework for distributing cash to government and non-government implementing partners (IP). The Framework was adopted by the United Nations (UN) Development Group (UNDG), which designs system wide guidance to coordinate, harmonize and align United Nations Development activities. Implementation began in 2006 by United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF), United Nations Population Fund (UNFPA), and the World Food Programme (WFP) (formerly known as the UNDG ExCom Agencies).

Recent audits and assessments have identified lessons learned and provided key information regarding the status of implementation from the initial period of HACT implementation. The HACT Advisory Committee has identified that there is now opportunity to build on the recommendations of these reviews and strengthen the framework in order to improve its effectiveness, streamline practices further, and modify or create guidance and supporting tools to help strengthen the achievement of HACT objectives.

## Objectives of HACT

The objectives of HACT, as defined in its original framework, are as follows:

- Strengthen national capacities for management and accountability with a view to gradually shift to utilizing national systems;
- Utilize a risk based approach, as opposed to a control based approach, to how agencies ensure their fiduciary responsibility for the funds transferred by them to implementing partners;
- Reduction in transaction costs; and
- Lessen the burden that the multiplicity of United Nations procedures and rules created for its partners.

## Key Barriers

A number of key barriers to effective HACT implementation have been identified through recent audits and assessments:

- Lack of clarity over the meaning of 'harmonized'. Harmonized means consistent and standardized approach to implementing partner (IP) management across agencies, regardless of whether IPs are shared by agencies or not;
- Lack of clarity over accountability: given that HACT is a risk based approach to how agencies manage IPs, the accountability for IP management rests with each agency. The Country Representatives and respective agencies are accountable for the funds transferred to each IP it works with; accountability is not 'shared' across agencies;
- Lack of capacity of United Nations staff responsible for HACT implementation who do not have strong competencies for assessing risks and internal controls, and understanding of financial management and audit;
- Perception that HACT has diluted, not enhanced assurance and oversight;
- Lack of understanding of the risk-based approach that the framework introduced and how the various components of the framework interact to provide assurance – as a result many countries have

implemented a hybrid of HACT and other assurance models such as NEX and NIM to achieve what they perceive to be an appropriate level of assurance;

- Guidance is not prescriptive enough to provide necessary guidance for country offices to consistently and effectively implement the HACT framework;
- Need for Agency specific guidance to account for the varying 'business models' and organisational structure of individual agencies;
- Lack of central monitoring and oversight has contributed to inconsistent implementation and application of the framework; and
- Lack of clarity over HACT compliance criteria and whether criteria sufficiently captures the effectiveness of implementation.

The revisions proposed in this document attempt to mitigate or address the above noted barriers.

### Approach to the HACT Revision

KPMG LLP (KPMG) was engaged by United Nations Development Operations Coordination Office (UNDOCO), on behalf of UNDG, to support the revision of the HACT Framework. The objectives of KPMG's engagement were to support the HACT Advisory Committee and its member United Nations agencies to revise the HACT Framework with a view to:

- Improving the effectiveness of the framework;
- Streamlining practices and reducing burden on programme governments and agencies;
- Clarifying or developing additional guidelines to support consistent implementation; and
- Addressing issues and recommendations identified in recent assessments of the HACT framework.

We noted throughout our consultancy broad consensus for the objectives and approach of HACT namely, its objectives to promote national ownership and apply a risk based approach to assurance of cash transfers. However, we also noted challenges with implementing HACT that have significantly impacted the United Nations ability to achieve HACT's stated objectives. Given the challenges noted to date, our approach has been to identify proposed revisions to the framework that are:

**Appropriate** – the HACT framework must be supportive of and complementary to agency specific business models; it must also provide appropriate levels of assurance and oversight over cash transfers.

**Pragmatic** – the HACT framework must recognize the current environment in which the various United Nations agencies operate, the partners they implement with and the capacity of partners and internal staff.

**Progressive** – recognizing that this consultancy represents a tangible opportunity to consider the approach and tools of the HACT concept, where possible, we provide suggestions to help enhance the longer term direction of HACT.

The above three design principles were used throughout our assessment and proposed recommendations to enhancing HACT processes, roles and responsibilities, guidance and tools.

## Key Themes to HACT Revisions

There are a number of key themes to the suggested framework revisions:

- As a basis, it is taken that conceptually the HACT framework as originally designed is logical and sound, and would provide the appropriate assurance and oversight safeguards if properly implemented;
- The term 'harmonized' is clarified to mean agencies using the same, consistent, standardized approach and tools. 'Harmonized' does not necessarily imply a joint approach, as the number of shared partners across the system is currently very low (approximately 13%);
- Agencies are accountable for cash transfers to their implementing partners, regardless of whether these are unique or shared implementing partners. The role of the Resident Coordinator is to help promote the benefits of HACT to partners and facilitate implementation across agencies. The Country Representative of each agency is accountable for HACT implementation by his/her Country Office;
- Ongoing monitoring by Headquarters is important to ensure effective implementation;
- Given the varying business models of different agencies, their differing assurance frameworks and their different stages of Enterprise Risk Management adoption, it is proposed that a transitional period to full adoption of the revised HACT framework is taken. This transitional period will vary in length at the discretion of each agency following their assessment of the variable components therein;
- Revisions to the current assurance framework are designed to conform with international standards, allow flexibility in the system for agencies to adjust their approach and audit coverage depending on the relative risk rating of Implementing Partners, with the ultimate intent of transitioning to a truly risk based assurance approach;
- Framework should contribute to appropriate levels of assurance over operational and financial reporting; reduction in audit requirements should be supported by additional assurance activities such as assessments, spot checks and other financial monitoring;
- HACT is a programme tool and the role of programmes is key to effective implementation of HACT;
- HACT implementation activities and decisions need to be better documented, using standardized tools, with evidence of how they support ongoing decision making;
- HACT should support, complement and be 'mainstreamed' into existing agency processes and business models – specific agency guidance should be developed to support implementation of the framework by agencies; and
- While use of external service providers is encouraged where United Nations capacity in audit and financial management is not available, United Nations staff must have the ability to manage the process, understand the results, and identify and implement activities that respond to those results.

## Costs of HACT

HACT was originally conceived as a way to reduce costs by streamlining processes and leveraging a risk based approach to reduce the overall transactions, and therefore costs, associated with cash transfers to implementing partners. The lack of clear data, including the ability to track the time spent by United Nations staff on HACT, makes it difficult to provide a clear assessment of the total cost of HACT and whether it is achieving its objective of generating cost efficiencies.

Given the other objectives of HACT as ratified by the General Assembly resolution 56/201, it is assumed that United Nations leadership would wish to continue with HACT even if the intended cost efficiencies are not proven. In fact, based on this consultancy and the proposed revisions herein, HACT may require

further investment to achieve its other intended objectives, and in particular to provide the necessary assurance over the United Nations fiduciary responsibility for funding to implementing partners.

In the short term, HACT might appear to be or may actually be more expensive than the traditional control based approach to cash transfers. The staff capacity of United Nations agencies to implement such activities must be increased through training and supplemented by external service providers. At headquarter level, additional staff and financial resources may be required to effectively monitor the implementation of HACT on a global scale. Individual agencies may require a significant increase in oversight and assurance before they feel comfortable in fully transitioning from a control based approach (such as through NEX and NIM audits) to the risk based approach of HACT.

## Summary of Proposed Revisions

The following table provides a summary of the key proposed revisions, with reference to where they are discussed within this report.

| 2.0 Key Revision Concepts              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |            |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>Applicability</b>                   | <ul style="list-style-type: none"> <li>■ Emphasis that HACT is required and applicable to all ExCom agency country programmes; it is not electively adopted or only applicable under certain conditions</li> <li>■ Considerations for non-ExCom agencies considering adoption of the HACT framework</li> <li>■ Clarifies that 'harmonized' relates to a standardized process to be used by all agencies, to provide a consistent United Nations approach</li> <li>■ Implementation of the standardized approach applies regardless of whether agencies have shared IPs</li> <li>■ For shared implementing partners, agencies should identify a lead agency for purposes of assurance activities</li> </ul> | <b>2.1</b> |
| <b>Programme instrument</b>            | <ul style="list-style-type: none"> <li>■ Underscores the use of HACT as a programme instrument to inform programmatic planning and risk management and be integrated with programmatic activities</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>2.3</b> |
| <b>Capacity development</b>            | <ul style="list-style-type: none"> <li>■ Acknowledges that many agency country offices face internal capacity constraints which limit their ability to provide capacity development services to implementing partners</li> <li>■ Agency discretion should be used to determine the level of capacity development required for each country office</li> </ul>                                                                                                                                                                                                                                                                                                                                               | <b>2.4</b> |
| 3.0 HACT Governance and Accountability |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |            |
| <b>Accountability</b>                  | <ul style="list-style-type: none"> <li>■ Emphasizes that accountability for HACT implementation is primarily with the agencies and their country representatives</li> <li>■ Clarifies that resident coordinators have responsibility for encouraging and facilitating joint implementation where possible</li> <li>■ Recommends that an inter-agency governance body should be established at headquarter level</li> </ul>                                                                                                                                                                                                                                                                                 | <b>3.1</b> |
| <b>Country team roles</b>              | <ul style="list-style-type: none"> <li>■ Recommends that HACT implementation be a standing agenda item for the United Nations Country Team</li> <li>■ Recommends that agencies identify a HACT Agency Manager responsible</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>3.2</b> |



|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |            |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
|                                         | <p>for day-to-day management of HACT</p> <ul style="list-style-type: none"> <li>■ HACT Agency Managers should meet regularly as a HACT Working Group</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |            |
| <b>Headquarter team roles</b>           | <ul style="list-style-type: none"> <li>■ Suggests an HQ Inter-Agency HACT Coordinator role be assigned to monitor consistency of implementation by each agency and facilitate and oversee joint implementation activities</li> <li>■ Recommends that HQ assign HACT HQ Focal Points who can provide guidance to country offices and monitor implementation</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                              | <b>3.2</b> |
| <b>4.0 HACT Processes – Planning</b>    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |            |
| <b>Macro assessment</b>                 | <ul style="list-style-type: none"> <li>■ Clarifies three fold purpose of macro assessment 1) assess public financial management system; 2) determine capacity of Supreme Audit Institution; and 3) provide beneficial information for the Common Country Assessment (CCA)</li> <li>■ Confirms use of macro assessment as an input to programmatic planning processes</li> <li>■ The macro assessment should be expanded to provide the agency country office with a broader understanding of the country which the programme operates</li> <li>■ Knowledge of the agency staff should be considered when assessing the assessment provided by an external service provider</li> </ul>                                                                              | <b>4.1</b> |
| <b>Micro assessment planning</b>        | <ul style="list-style-type: none"> <li>■ The approach to selecting implementing partner for micro assessment should be risk-based (i.e. use of percentage coverage opposed to dollar threshold)</li> <li>■ ‘Agency Assurance Plans’ should include a schedule for conducting micro assessments of implementing partners that will help prioritize micro assessments when agencies have a large number of implementing partners</li> <li>■ The framework should provide guidance how to effectively incorporate other available data into the analysis of the micro assessments</li> <li>■ The ‘Micro Assessment Plan’ eliminates the dollar value threshold in determining which partners require a micro assessment and provides a risk based approach</li> </ul> | <b>4.2</b> |
| <b>Micro assessment execution</b>       | <ul style="list-style-type: none"> <li>■ Confirms use of the micro assessment as an input to programmatic planning processes</li> <li>■ Emphasizes that micro assessments should be performed by external service provider</li> <li>■ The revised framework should provide guidance for assigning cash transfer modality based on overall risk rating</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                   | <b>4.3</b> |
| <b>Assurance planning</b>               | <ul style="list-style-type: none"> <li>■ Emphasizes the importance of assurance planning, including the requirement to develop a formal documented plan by agency</li> <li>■ Suggests roles, guidance and tools to be used to help improve documentation and consistency of assurance planning</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>4.5</b> |
| <b>4.0 HACT Processes – Execution</b>   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |            |
| <b>Cash disbursements and reporting</b> | <ul style="list-style-type: none"> <li>■ Agencies and Resident Coordinators should reinforce the concept of the FACE form and advise programme staff not to modify the template provided or request supporting documentation from implementing partners</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>4.4</b> |

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |            |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>Spot checks</b>                         | <ul style="list-style-type: none"> <li>■ Emphasizes the purpose of the spot check is to provide limited assurance during interim periods when a scheduled audit is not performed</li> <li>■ Revised framework provides guidance related to the frequency and combination of assurance activities based on overall risk rating</li> <li>■ Suggestion for the creation of a standard checklist to be completed for each spot check to replace the original framework report requirement</li> </ul>                                                                                                                                                                                                                 | <b>4.7</b> |
| <b>Programme monitoring</b>                | <ul style="list-style-type: none"> <li>■ Emphasizes that programme staff should be involved through the HACT processes to incorporate their knowledge</li> <li>■ Suggestions that limited financial procedures be performed during scheduled programme monitoring activities</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>4.8</b> |
| <b>Scheduled Audits</b>                    | <ul style="list-style-type: none"> <li>■ Emphasizes that a HACT scheduled audit is of systems and internal controls, it does not require a substantive financial statement opinion following each applicable transitional period for individual agencies</li> <li>■ Emphasizes that either an internal control or financial audit is required for an implementing partner, not both</li> <li>■ Provides guidance related to the frequency and combination of assurance activities based on overall risk rating</li> <li>■ Recommends that the terms of reference for internal audits of country offices should be updated to appropriately assess compliance and effectiveness of HACT implementation</li> </ul> | <b>4.9</b> |
| <b>5.0 HACT Oversight and Monitoring</b>   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |            |
| <b>Country role</b>                        | <ul style="list-style-type: none"> <li>■ Country HACT Agency Manager should be responsible for monitoring assurance activities to confirm agency is complying with framework</li> <li>■ HACT Inter-Agency Coordinator should be responsible for monitoring activities (solo agency and shared) to ensure they are consistently being applied</li> </ul>                                                                                                                                                                                                                                                                                                                                                          | <b>5.1</b> |
| <b>Headquarters role</b>                   | <ul style="list-style-type: none"> <li>■ HACT Agency HQ Focal Point should be responsible for monitoring assurance activities performed at the country level</li> <li>■ Identified issues should be communicated to the applicable Comptrollers and HACT Advisory Committee</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>5.1</b> |
| <b>Implementation Tracking and Results</b> | <ul style="list-style-type: none"> <li>■ Measures HACT implementation at the agency as well as country level</li> <li>■ Modifies metrics to better measure actual implementation</li> <li>■ Requires Country Representatives and Resident Coordinators to certify implementation</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>5.2</b> |
| <b>6.0 HACT Guidance and Tools</b>         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |            |
| <b>HACT guidance</b>                       | <ul style="list-style-type: none"> <li>■ Suggests that the revised framework include guidance on cost sharing of HACT across agencies</li> <li>■ Recommends the creation of agency specific guidance based upon the revised framework</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>6.1</b> |
| <b>HACT tools</b>                          | <ul style="list-style-type: none"> <li>■ Recommends for the creation of a mechanism for data sharing across agencies, if existing agency specific mechanism is not sufficient</li> <li>■ Emphasis that the revised framework provide further guidance and require countries to create a HACT implementation plan</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                      | <b>6.2</b> |

| 7.0 Transition to the Revised Framework              |                                                                                                                                                                                                 |            |
|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>Transition to the Revised Framework</b>           | <ul style="list-style-type: none"> <li>■ Acknowledgement that a transition period will be needed to implement certain aspects of the revised framework to ensure full implementation</li> </ul> | <b>7.1</b> |
| <b>Implementation plan for the Revised Framework</b> | <ul style="list-style-type: none"> <li>■ Emphasis on communication and training to support the transition to the revised framework</li> </ul>                                                   | <b>7.2</b> |
| <b>Institutionalizing the Revised Framework</b>      | <ul style="list-style-type: none"> <li>■ Clarifies the need for institutionalizing the framework with the agencies to ensure successful implementation</li> </ul>                               | <b>7.3</b> |
| <b>Additional Considerations</b>                     | <ul style="list-style-type: none"> <li>■ Provides additional considerations for management regarding long term implementation of HACT (e.g. evolution of ERM approaches)</li> </ul>             | <b>7.4</b> |

# 1.0 Introduction

# 1.1 Background

The Harmonized Approach to Cash Transfers (HACT) Framework was introduced in 2005 as a common operational framework for distributing cash to government and non-government implementing partners with the objective to support a closer alignment of development aid with national priorities and strengthen national capacities for management and accountability. This Framework represented a shift from assurance for cash transfers derived from project level controls and audits towards assurance derived from risk/system-based assessments and audits. The goal was that the Framework would reduce transaction costs and lessen the burden that the multiplicity of United Nations procedures and rules create for its partners.

The Framework was adopted in 2005 by the United Nations Development Group (UNDG), which designs system wide guidance to coordinate, harmonize and align United Nations Development activities. Implementation began in 2006 by United Nations Development Group (UNDP), United Nations Children's Fund (UNICEF), United Nations Population Fund (UNFPA), and the World Food Programme (WFP) (formerly known as the UNDG ExCom Agencies). WFP has had limited experience with the Framework as they primarily distribute food aid through the execution of their mission rather than cash transfers. The introduction of this Framework also represented a step towards the implementation of the United Nations General Assembly Resolution 56/201, which calls for the simplification and harmonization of rules and procedures in the United Nations systems, the Rome Declaration on Harmonization and Paris Declaration on Aid Effectiveness, which call for a closer alignment of development aid with national priorities and needs.

The United Nations has completed various assessments with respect to implementation of the HACT Framework, including the *HACT Global Assessment* (December 2011) completed by UNDG HACT Advisory Committee and the *Joint Audit of the Governance Arrangement for the Harmonized Approach to Cash Transfers (HACT)* (November 2012) completed by the UNDP Office of Audit and Investigations and UNFPA Division of Oversight Services. These assessments have identified lessons learned and provided statistics regarding the status of implementation. The HACT Advisory Committee has identified that there is now opportunity to build on the recommendations of these assessments and strengthen the Framework in order to improve its effectiveness, streamline practices further, and modify or create guidance and supporting tools to help achieve the original HACT objectives.

# 1.2 Objectives, Scope and Approach

## Objectives

KPMG was engaged by United Nations Development Operations Coordination Office (UNDOCO) on behalf of UNDG, under the Request for Proposal (RFP) dated 9 July 2012, to support the revision of the HACT Framework. The objectives of KPMG's engagement were to support the HACT Advisory Committee and its member United Nations agencies to revise the HACT Framework with a view to:

- Improving the effectiveness of the framework;
- Streamlining practices and reducing burden on programme governments and agencies;
- Clarifying or developing additional guidelines to support consistent implementation; and
- Addressing issues and recommendations identified in recent assessments of the HACT framework.

## Scope

The scope of this engagement considered the original HACT Framework and implementation since inception in 2006. As the number of countries UNDP, UNICEF, and UNFPA operate (more than 150), it would not be possible to interview members from each of the Agencies in those countries and obtain a specific understanding of the status of their HACT implementation status. As such, the scope of our consultancy included desk review of documents, in-person interviews with key stakeholders at the various United Nations agencies headquarters in New York City, and telephone interviews with selected key stakeholders located outside the United States. We selected three countries (Malawi, Vietnam, and Armenia) and the Eastern and Southern Africa (ESA) Region to obtain country specific information we believed to provide a representative sample for our analysis.

## Approach

An overview of our approach is summarized below:

|                                                                                                                                                                                                                                                                                                           | Deliverables                                                                                                                                                                                                                                              | Timeframe                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| <b>Phase 1 – Planning</b><br><b>Performed initial documentation review and agency interviews in order to finalize our approach and document in the Inception Report.</b>                                                                                                                                  | <ul style="list-style-type: none"><li>■ Inception Report submitted 21 January 2013</li></ul>                                                                                                                                                              | December 2012 – January 2013 |
| <b>Phase 2 – Current State Assessment</b><br><b>Obtained an understanding in detail of the HACT processes, activities, roles and responsibilities and governance requirements of the current HACT framework, in order to provide the baseline for developing recommendations to revise the framework.</b> | <ul style="list-style-type: none"><li>■ Provided the United Nations Board of Auditors with an overview of the consultancy, risks and issues identified on 24 January 2013;</li><li>■ Interviewed country teams from Armenia, Malawi and Vietnam</li></ul> | January 2013                 |

## 1.2 Objectives, Scope and Approach (continued)

|                                                                                                                                                                                               | Deliverables                                                                                                                                                                                                                                                                                                                             | Timeframe                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
|                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>Presented the current state assessment to the HACT Advisory Committee on 14 February 2013;</li> </ul>                                                                                                                                                                                             |                              |
| <b>Phase 3 – Revised Framework Development</b><br>Developed proposed modifications and recommended revisions to the framework to help mitigate the barriers identified in the previous phase. | <ul style="list-style-type: none"> <li>Revised Framework draft report submitted to the HACT Advisory Committee on 1 March 2013</li> </ul>                                                                                                                                                                                                | January 2013 – February 2013 |
| <b>Phase 4 – Validation</b><br>Presented the proposed revision to key stakeholders for their review and feedback in three validation workshops that focused on:                               |                                                                                                                                                                                                                                                                                                                                          | March 2013 – July 2013       |
| 1) <b>Audit &amp; Assurance;</b>                                                                                                                                                              | <ul style="list-style-type: none"> <li>Workshop held 26 March 2013; and</li> <li>Revised draft report section regarding audit and assurance provided on 18 April 2013 for review and feedback</li> </ul>                                                                                                                                 |                              |
| 2) <b>Governance and Oversight; and</b>                                                                                                                                                       | <ul style="list-style-type: none"> <li>Workshop held 2 April 2013</li> </ul>                                                                                                                                                                                                                                                             |                              |
| 3) <b>General HACT Concepts</b>                                                                                                                                                               | <ul style="list-style-type: none"> <li>Workshop held 8 July 2013</li> </ul>                                                                                                                                                                                                                                                              |                              |
| <b>Phase 5 – Finalization</b><br>Update and refine the draft Revised Framework report developed in Phase 3 based on feedback from agencies throughout the consultancy.                        | <ul style="list-style-type: none"> <li>KPMG presented at UNDP's Audit Advisory Committee meeting on 17 July 2013;</li> <li>Revised Framework draft report provided to agencies on 29 July 2013;</li> <li>'Page Turner' meeting held with agencies on 26 August 2013; and</li> <li>Final report submitted on 17 September 2013</li> </ul> | July 2013 – September 2013   |

Further to the summary provided above, the following provides additional details regarding Phases 2 through 5:

### ■ Phase 2 – Current State Assessment

Our consultancy was primarily based on the findings of a number of key documents, including the *Global Assessment of the Harmonized Approach to Cash Transfer (HACT)* (issued 07 December 2011) and the *Joint Audit of the Governance Arrangements for the Harmonized Approach to Cash*

*Transfers (HACT)* (issued 09 November 2012). In addition, we interviewed several key stakeholders to validate and explore those issues in more depth. The stakeholders consulted represented those at country, regional, and headquarter levels and are listed in Appendix 1. This document represents the initial baseline set of proposed framework revisions based on the analysis to date. It is intended to be discussed and validated with key stakeholders over the coming weeks and as such, may change significantly as a result of those discussions.

### ■ Phase 3 – Revised Framework Development

KPMG utilized the information gathered through Phase 1 and 2 to develop the initial draft report provided to the HACT Advisory Committee on 1 March 2013. This provided the basis for the validation workshops detailed in Phase 4 and the final report provided in Phase 5, detailed further below.

### ■ Phase 4 – Validation

One of the key stages to this consultancy was this Validation Phase, which included three in-person workshops with agency headquarter participants focused on 1) Audit & Assurance, 2) Governance, Roles & Responsibilities, and 3) General HACT Concepts. These workshops provided KPMG the opportunity to present preliminary proposed revisions for the framework to key stakeholders. The participants of these workshops provided valuable information, discussions and additional points of consideration for KPMG to utilize during the Finalization Phase of the consultancy detailed below. Delays were experienced during this phase due to coordination constraints amongst the main participating agencies, yet it was considered valuable to the process to complete the planned validation workshops.

### ■ Phase 5 – Finalization of Recommended Revisions

Upon completion of the Validation Phase, detailed above, KPMG provided a revised report detailing our proposed revisions to the HACT framework to the HACT Advisory Committee. KPMG requested 1-2 representatives be identified from each UNDP, UNFPA and UNICEF to further distribute the draft report within their agency and to consolidate feedback. These representatives communicated agency feedback during a 'page turner' meeting with KPMG. At this meeting, comments were discussed and final revisions were agreed upon. Subsequent to this meeting, KPMG updated and submitted the final report to the HACT Advisory Committee and UNDG.

## Structure of this report

The proposed revisions to the HACT framework are structured as described below:

### 2.0 Key Revision Concepts

Before introducing the proposed revisions, there are a number of key points or themes that relate to the proposed revisions overall, namely:

- **2.1 Applicability** – clarification of the applicability of the HACT framework for ExCom agencies
- **2.2 The HACT Assurance Model** – analysis of various other development organization assurance models compared to the various United Nations agencies and HACT
- **2.3 HACT as a Programme Instrument** – proposed clarification of how HACT is a part of programming and should be incorporated together
- **2.4 Capacity Development** – proposed clarification regarding internal and external capacity development



### 3.0 HACT Governance and Accountability

- **3.1 Governance and Accountability** – proposed clarifications of governance and accountability of HACT at the inter-agency, agency headquarter, and country level
- **3.2 Roles and Responsibilities** – proposed clarifications of the various roles and responsibilities within the HACT framework

### 4.0 HACT Processes

- **4.1 Macro Assessment** – proposed clarifications to the purpose, process, roles and responsibilities and tools regarding the macro assessment process
- **4.2 Micro Assessment Planning** – introduction of the purpose, process, roles and responsibilities and tools regarding the micro assessment planning process
- **4.3 Micro Assessment Execution** – proposed clarifications to the purpose, process, roles and responsibilities and tools regarding the micro assessment execution process
- **4.4 Cash Transfers Disbursement and Reporting** – proposed clarifications to the purpose, process, roles and responsibilities and tools regarding the cash transfers disbursement and reporting process
- **4.5 Assurance Planning** – clarification and development of a mechanism for planning for the various components of the HACT framework regarding assurance
- **4.6 Implementation of Assurance Activities** – overview of the various assurance activities provided within the HACT framework
  - **4.7 Spot Checks** – proposed clarifications to the purpose, process, roles and responsibilities and tools regarding the spot check assurance activities
  - **4.8 Programme Monitoring** – proposed clarifications to the purpose, process, roles and responsibilities and tools regarding the programme monitoring assurance activities
  - **4.9 Scheduled Audits** – proposed clarifications to the purpose, process, roles and responsibilities and tools regarding the scheduled audit assurance activities
  - **4.10 Special Audits** – proposed clarifications to the purpose, process, roles and responsibilities and tools regarding the special audit assurance activities

### 5.0 HACT Oversight and Monitoring

- **5.1 Oversight and Monitoring of HACT Implementation** – this section have been structured to provide details regarding barriers identified, proposed revision to the current purpose, process, roles and responsibilities, tools, and any other considerations identified.
- **5.2 HACT Implementation Tracking and Results** – proposed clarification regarding the current lack of consistent HACT compliance criteria, reporting and monitoring procedures, and methods for verification

### 6.0 HACT Guidance and Tools

- **6.1 HACT Guidance** – proposed clarifications regarding the broad consensus from those interviewed and documents reviewed that the revised framework requires a great deal more guidance
- **6.2 HACT Tools** – proposed tools that could assist with the implementation of HACT and sharing data and documents

### 7.0 Transition to the Revised Framework

- **7.1 Transition to the Revised Framework** – proposed clarifications and timeline for the transition period to fully incorporate and implement the revised framework
- **7.2 Implementation Plan for the Revised Framework** – proposed activities that could support the transition of the revised framework
- **7.3 Institutionalizing the Revised Framework** – proposed clarifications to progress towards fully institutionalizing the framework
- **7.4 Additional Considerations** – proposed additional considerations for the long term implementation of the revised HACT framework

## 2.0 Key Revision Concepts

## 2.1 HACT Applicability

### HACT Applicability

The HACT framework became mandatory for UNFPA, UNDP, UNICEF and WFP upon its adoption pursuant to the United Nations General Assembly Resolution 56/201 on the triennial policy review of operational activities for development of the United Nations system. However, mainly through the lack of appropriate oversight, guidance and understanding of the framework, implementation was not appropriately or consistently executed. The framework is viewed as an additional framework and set of requirements outside of the day to day operation of programmes that could be elected as applicable or not. This view is contrary to the principles of the framework which aimed to shift from a control-based programming approach to a broader, and integrated risk-based approach.

To some extent, all UNFPA, UNDP and UNICEF agencies are implementing HACT to various degrees. WFP mainly distributes goods to partners as opposed to cash transfers which means the HACT framework may have less applicability for their agency. Some countries are implementing a hybrid approach to HACT whereby they are undertaking macro and micro assessments but then requiring annual Nationally Implemented (NIM)/Nationally Executed (NEX) audits to provide assurance over those funds. This can be due to a number of reasons, such as lacking capacity to perform spot checks, delays to procuring an external service provider to perform HACT audits and lacking confidence in the risk based approach to provide appropriate assurance overall. Annual NIM/NEX audits are being used in this respect as a default option for high risk partners if the agency, for example, hasn't been able to perform spot checks (i.e. reviews of expenditures against a sample of FACE forms). They are defaulting to a financial NIM/NEX audit because it is currently perceived that the HACT assurance framework, which focuses on an assessment of internal controls more than financial transactions, does not provide sufficient assurance given its erratic implementation to date.

Even where a government does not authorize a macro/micro assessment in accordance with the HACT approach, agencies are able to bypass the assessment steps of HACT and can proceed with planning assurance activities on a 'high risk' basis. HACT is also applicable for emergency, crisis and post-conflict countries. It is acknowledged that additional measures might be required for these contexts and these will need to be agreed by agencies for each country as the nature of the operating environment will differ in each scenario. Third party monitoring can be used to support HACT implementation in such scenarios and it is likely that 'high risk' procedures would be most appropriate. *As part of the revised HACT framework roll-out, the HACT Advisory Committee should emphasize that HACT is mandatory for all country offices of the adopting agencies.*

### Clarification of 'Harmonized'

A key observation throughout our consultancy was the differing understandings and interpretations of HACT, its definitions, purpose and approach. A key element of the proposed revisions therefore includes defining some of the commonly misunderstood or misinterpreted aspects.

One of the most commonly misunderstood terms is 'harmonized'. *Harmonized in the context of HACT refers to each agency implementing HACT using the same, consistent, standardized approach and tools.* Harmonized does not necessarily imply a joint approach. Given that only thirteen per cent of the 2,648 partners reported by UNCTs were shared, it should be emphasized that HACT primarily provides a sound, risk management approach to how each agency manages cash transfers to partners, and by

standardizing this approach across agencies, coordinate activities between multiple agencies are also possible<sup>1</sup>.

## Agency Business Models

The HACT framework was designed with the intention of being appropriate for implementation within the context of different agency operating models. The framework was intended to provide the high level conceptual framework which agencies would be able to apply to their business processes and provide specific guidance and implementation instructions for their teams. While variation of agency operating models is often cited as a barrier to successfully implementing a coordinated approach to HACT, it should not be a barrier for agency specific implementation of HACT.

The original framework intended that agencies would develop agency specific guidance and procedures on implementing HACT, which would help country teams to understand how to apply HACT as part of their standard operating procedures. *In response to the revised framework, agencies should develop clear guidance and operating procedures which provide instructions for implementing HACT within its agency and help to embed HACT as part of the agency operating model.*

Through our assessment of current HACT implementation, we noted that agencies' differing expectations with respect to audit and assurance were a key prohibiting factor to implementing HACT, both jointly (where agencies have different requirements) and individually (where HACT is perceived to offer less assurance than traditional audit approaches such as NIM and NEX, due to a lack of full implementation of the HACT framework). The variations in existing audit requirements are summarized in the table below.

|                                  | UNDP                                                                                                                              | UNFPA                                                                                                                                      | UNICEF                                                                                                                                                  |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Responsibility for audit</b>  | Agency/Country Office (CO)                                                                                                        |                                                                                                                                            |                                                                                                                                                         |
| <b>Type of audit</b>             | Substantive/financial (NIM)                                                                                                       | Substantive/financial (NEX)                                                                                                                | Internal Control/Systems                                                                                                                                |
| <b>Deliverable</b>               | Opinion on project financial statement; findings on internal controls                                                             | Opinion on project financial statement; findings on internal controls                                                                      | Opinion and findings on internal controls                                                                                                               |
| <b>Spot checks</b>               | Desirable but not mandatory                                                                                                       | Desirable but not mandatory                                                                                                                | Desirable but not mandatory                                                                                                                             |
| <b>Role of Internal Audit</b>    | <ul style="list-style-type: none"> <li>■ Review NIM reports</li> <li>■ Perform CO audits which consider CO NIM process</li> </ul> | <ul style="list-style-type: none"> <li>■ Do not review NEX reports</li> <li>■ Perform CO audits which consider CO's NEX process</li> </ul> | <ul style="list-style-type: none"> <li>■ Do not review audit reports of IPs</li> <li>■ Perform CO audits which consider CO's audit processes</li> </ul> |
| <b>Board of Auditor Reliance</b> | NIM reports                                                                                                                       | NEX reports                                                                                                                                | Internal Audit reports                                                                                                                                  |

<sup>1</sup> Number of shared partners as stated in Joint Audit of the Governance Arrangements for HACT (November 2012)

A key focus of the proposed revisions was to identify common requirements and expectations for audits of IPs in order that the HACT audit is seen as an appropriate alternative option to existing audit models, which, alongside other HACT tools such as spot checks, provide overall appropriate levels of assurance.

### HACT for non-ExCom Agencies

The decision to adopt the HACT framework by non-ExCom agencies and inter-agency programmes<sup>2</sup> should be taken with consideration of the implications to that agency. For example:

- Does the agency provide cash transfers to implementing partners?
- Is the agency's programme cycle long enough in duration to allow for all the components of the framework to be applied? (e.g. if programme cycles are typically only one year it may not be effective for the agency to implement the framework)?
- Are implementing partners shared with other agencies that have adopted the framework?
- Does the agency have the capacity to implement the framework?
- Does the agency have the resources to engage the necessary external service providers for the various assurance activities required by the framework?

Once an agency has decided to adopt the revised framework, they should leverage the experience and knowledge of agencies that have successfully implemented the framework for guidance. Each agency should develop specific HACT guidance which is customized as appropriate to the agency's business model. Any significant deviation from the HACT guidance should be discussed with the executive director/administrator, the HACT Advisory Committee and other bodies as applicable. Agencies should develop a HACT implementation plan specific to their entity.

### Defining the Implementing Partner

The definition of implementing partner is a commonly misunderstood term in the HACT framework, primarily due to the existing framework not providing a definition. Implementing partners can be either governmental organizations, non-governmental organizations or other civil society organizations that receive and are accountable for funds transferred by the United Nations and are responsible for the achievement of results regarding the Annual Work Plan (AWP) or agency equivalent. This has led to country offices inconsistently determining the implementing partner, examples include:

- national ministry level;
- sub-department within the national ministry; and
- organization implementing programme activities.

This has a direct impact on the number of assessments performed and assurance activities necessary to comply with the HACT framework. It appears that if the national ministry level were not directly implementing the programme activities a micro assessment at this level would not provide the United Nations country office with useful information regarding the accounting system and internal control framework for those ultimately utilizing the funds. However, the organization that signed the AWP (e.g. national ministry level) has responsibility to distribute funds as agreed upon to achieve the programme objective. As such, an expanded micro assessment could provide information regarding the organization

---

<sup>2</sup> In example, United Nations collaborative programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD).

that signed the AWP ability to manage funds received (i.e. distribute funds and ensure utilized for the intended purpose), supporting the implementing partner being defined as the organization that signs the AWP.

This inconsistent definition and understanding of implementing partners could be contributing to the low number of shared implementing partners among agencies involved in HACT.

*Therefore, it is recommended that the definition of the implementing partner be clearly defined in the revised framework as the organization that the agency has an AWP or agency equivalent.* The definition of the implementing partner at this level may significantly decrease the number of partners at each agency and increase the number of shared partners in relation to HACT. Once the definition of an implementing partner has been defined, agencies should document their rationale for any instances that require them to deviate from this definition.

### Shared Implementation Partners

Where agencies share an IP, agencies should work together to ensure that there is an appropriate balance between the agency's assurance requirements and the burden of oversight and assurance to the IP. *For shared implementing partners, agencies should identify a lead agency for purposes of assurance activities.* This determination should consider the relative size of funding being provided to the IP by each agency (relative to each agency's overall country programme budget) in order that all agencies can be satisfied that lead responsibility of the assurance activities is appropriate and fair.

All agencies will be responsible for including the IP in its 'Agency Assurance Plan' and 'Micro Assessment Plan' and the lead agency is responsible for ensuring that assurance activities are executed as planned. The results of assurance activities should be shared and discussed with all agencies providing funding to the IP and there should be opportunity for non-lead agencies to provide insights on the IP based on their own working relationship and observations, and provide input to appropriate risk rating, Cash Transfer Modality (CTM) and planned assurance activities. The responsibilities for shared assurance activities are proposed as follows:

| Activity                                         | Who?         |
|--------------------------------------------------|--------------|
| <b>Planning/scoping</b>                          | All agencies |
| <b>Executing</b>                                 | Lead agency  |
| <b>Review of results/agreement on next steps</b> | All agencies |

As an alternative option, potentially in countries with a large number of shared IPs, the agency country office may determine that a separate assurance plan should be developed for shared IPs. This would be especially beneficial where agencies are contributing large amounts to IPs and want to play a more active role in managing and overseeing assurance activities than under the "lead agency" arrangement. The assurance planning procedures outlined above should be applicable for agency specific and shared assurance plans. For countries that choose to develop a shared assurance plan, the agency country office may wish to allocate responsibility for the plan to the HACT Inter-Agency Coordinator role (further discussed in Section 3.2 Roles and Responsibilities). The Inter-Agency Coordinator role should report on progress against the assurance plan to the HACT Working Group and/or the UNCT to help ensure the

appropriate oversight over shared assurance implementation. *Further information on implementing assurance activities for shared IPs is provided in the respective assurance activities section.*

Note that under the proposed revisions, audits that are performed for shared IPs are termed ‘shared audits’ to differentiate from ‘joint audits’ which are performed by two or more agency internal audit units over United Nations country operations, rather than IPs.

### HACT Implementation Benefits

The following potential benefits have been identified regarding the implementation of the revised HACT framework:

- long term cost efficiencies and consistencies through the use of a global or regional, inter-agency or agency specific, external service providers performing HACT assessment and assurance activities;
- elimination of activities viewed as non-value add or duplicative (e.g. performing HACT macro and micro assessments for an implementing partner, however requiring country offices to following NEX/NIM audit procedures);
- perception of harmonized policies and procedures to implementing partners;
- joint assessment and assurance activities, where applicable;
- compliance with HACT adoption through General Assembly Resolution 56/201 and promotion of national ownership;
- prescribed guidance and oversight of cash transfers to country offices;
- established structure of accountability for country offices for cash transfers;
- systematic assurance framework that allows for the decrease of implementing partner risk ratings and corresponding required assurance activities.



## 2.2 The HACT Assurance Model

### Analysis of the Assurance Model

As part of our consultancy mandate, we reviewed the HACT assurance model and compared to similar models with other development agencies such as the World Bank, regional development banks, national development agencies such as USAID and DfID (now UKAID), and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

A key difference in the United Nations model compared to these other partners lies with the point of accountability. Under HACT, United Nations management is responsible and accountable for ensuring that audits are performed over funding disbursements to implementing partners. Other development agencies place this point of accountability with the implementing partner: the contract or funding agreement with the implementing partner contains requirements that the implementing partner is responsible for procuring an external service provider to perform an audit of the implementing partner and these audit results be shared with the funding agency. The budget for an audit is usually planned for as part of the programme budget. Typically, the funding agency will also provide the standard terms of reference for the audit as well. The scope of these audits normally includes a financial audit (a review of actual expenditures and financial transactions) which may or may not be supplemented by a review of the implementing partner's internal controls. A summary of the different models is provided in Appendix 2. *In the revised HACT framework agencies should be required to incorporate costs related to assurance activities in their programme budgets.*

The above models were discussed with the HACT Advisory Committee on 14 February 2013 for their relevance and appropriateness to the United Nations system. Repositioning of the point of accountability for audit with the implementing partner, rather than United Nations management, would further align with the HACT objective to promote national ownership. However, the business model of the United Nations agencies differ from the other development agencies considered in this analysis in that there are not the same performance based mechanics to help enforce the audit requirement as a condition of the implementing partner receiving funds. In the longer term, however, this may be an area the United Nations may wish to explore further.

### Distribution of assurance mechanisms not less assurance

The revised framework provides a new opportunity to confirm and educate United Nations staff on how a risk based approach is intended to achieve appropriate levels of assurance and controls through reliance on other tools throughout the programme cycle rather than reducing assurance by reducing project audits. HACT places reliance on other tools such as micro assessments and spot checks to increase the assurance levels apparently 'lost' by the reduced number of scheduled audits. The suggested revisions contained in this document intend to provide a more holistic approach to oversight, both at country and headquarter level, with the intended purpose of reducing the transaction burden of the number of audits through broadening the assurance results for the benefit of management.

## 2.3 HACT as a Programme Instrument

### HACT as part of Programming

HACT was developed as a programme instrument and should not be viewed as a separate framework or as an operational or financial mechanism.

Agencies manage programme risk differently and have their own requirements and expectations for programme monitoring activities, given that the nature of the programmes vary across agencies. However, the risks identified through HACT processes and the corresponding HACT activities should be integrated into programme risk management and programme planning documentation as much as possible. For example:

- To help embed HACT within programming, HACT assurance and capacity development activities should be included in AWP with the implementing partner, including the assurance activities. This will help ensure that HACT activities are performed at appropriate points in the programme cycle and that resources are distributed effectively.
- Some agencies do include risks identified through the assessments in the project risk log: this should be included as a requirement in the revised framework to share this better practice across agencies. If project risks logs do not exist, agencies should develop a mechanism to document risk to ensure it has been appropriately considered as a part of programming.

### Role of Programme

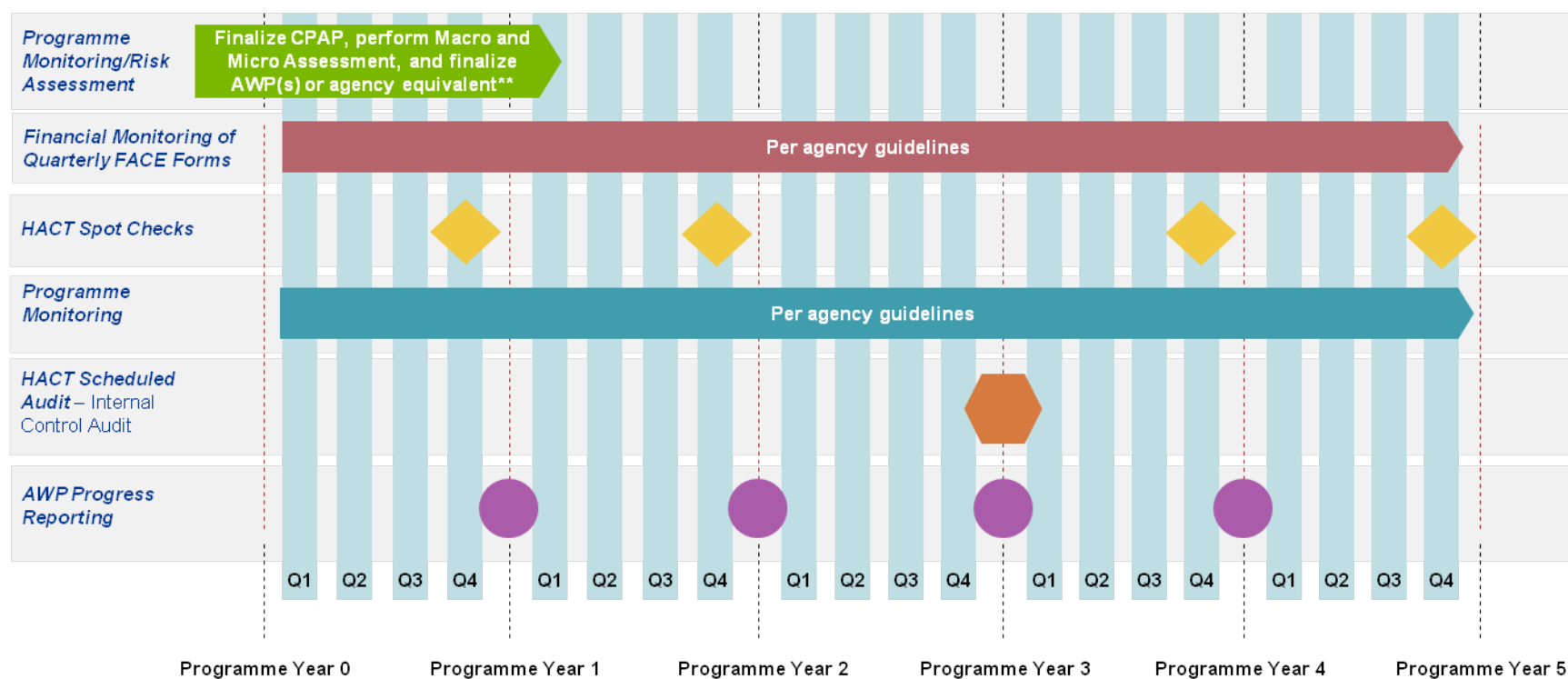
The perception that HACT is solely a financial/operational process should be strongly discouraged. For HACT to be successful against its stated objectives, it needs to be understood as part of day-to-day operations, such as programmatic activities and considerations. In particular, one way to improve the capacity of country offices to implement HACT is to identify areas where HACT can be incorporated into existing processes and activities, rather than as discrete efforts that would require additional and separate time to plan and execute. For example:

- Incorporating, and/or enhancing existing, financial transaction review procedures as part of programmatic monitoring activities would significantly enhance the country office's oversight of projects and help identify, and therefore correct, issues before audits. While not as in-depth as spot check procedures or more detailed financial analysis, it does provide country offices with a realistic option to enhance timely oversight while recognizing the realities of limited resources.
- In addition, programmatic staff have valuable insight into operations and capacity of implementing partners through their programmatic monitoring activities. Their understanding of implementing partners and potential implementation risks should also be part of a continuous feedback loop that informs assurance activities.

*Embedding HACT within existing processes and activities, and in particular programmatic processes and activities, is a core theme of the proposed revisions.*

The following diagram provides a graphic depiction of an example of a low risk rated programme cycle with HACT assurance activities layered on top. Refer to Appendix 3 for additional diagrams for each risk rating.

Figure 1: Low Risk IP HACT Assurance Activities

**Legend:**

= Quarterly submission of face form

\*\* = Assume high risk until activities are completed, then adjust risk rating and cash transfer modality accordingly

## 2.4 Capacity Development

### Capacity Development of implementing partners

Capacity development is a central part of the HACT vision and is a core component of managing, rather than just assessing, risk. Identification of, and planning to address, capacity gaps in implementing partners (either through direct assistance by the country team or through other development partners) should be an element of HACT implementation that all countries take serious steps to embed within their approach to implementing HACT. It is acknowledged that agencies have to focus their resources on their key thematic areas of development; however, financial management capacity, should be seen as a cross-cutting underlying capacity necessary for any implementing partner to effectively work in the areas that matter most to agencies<sup>3</sup>.

Capacity development can be defined at three main levels:

- National level capacity support, most typically performed by the World Bank and other similar organizations;
- Project Management Unit support, where United Nations staff can provide implementation support to national partners thereby developing capacity in the organization; and
- 'Indirect' capacity support, whereby United Nations staff are able to provide guidance and education directly to partner staff through the course of implementation activities.

Capacity development is therefore key to achieving the HACT objective of promoting national ownership. However, the United Nations agencies do not necessarily have the directive or capacity to respond effectively to the capacity development needs of partners with respect to financial management. For this reason, *agency discretion should be used to determine the level of capacity development required for each country office*. The HACT framework should support the wider capacity development efforts for partners by:

- Having United Nations staff which are skilled in financial management, assurance and oversight activities and can therefore communicate expectations and requirements to partners, helping to promote the partners understanding of financial management expectations of the United Nations system; and
- Providing a framework that contains incentives for implementing partners to pursue capacity development efforts with other development partners or private providers. HACT 'rewards' implementing partners with strong financial management capabilities by reducing the amount of assurance activities that are required through decreased risk ratings. Therefore, even if the United Nations agencies are not the direct providers of capacity development activities, the HACT framework is supportive of and complementary of this longer term wider aspiration.

---

<sup>3</sup> HACT Advisory Committee 2008 paper

### Capacity of United Nations teams

While ‘capacity development’ in the HACT context relates specifically to the financial management capacity of IPs, consideration of the United Nations internal capacity with regard to financial management is a critical aspect of being able to effectively implement HACT.

Strengthening United Nations capacity, particularly at the country level, in areas of assurance, budgeting, financial management, procurement management, is critical to the successful implementation of a risk based approach to cash transfers and also pays a second dividend in that United Nations staff is able to transfer knowledge of such practices to implementing partners.

Without sufficient in-house capabilities in the areas of financial management, the HACT framework may not be sustainable and is unlikely to achieve its desired objective. The use of external service providers is a way to augment internal capacity, but cannot fully substitute. For the assurance objectives of HACT to be realized, United Nations teams must be able to understand and act appropriately upon the results of assurance activities by external service providers. *Developing the capacity of United Nations teams in these areas should be a priority of agencies, and a pre-requisite to capacity development activities with implementing partners.*

Note that ‘capacity development’ of United Nations teams relates specifically to the capacity of United Nations staff in the above mentioned areas. This is separate and distinct from training on HACT for United Nations staff, which is discussed further in the ‘7.2 Implementation Plan for the Revised Framework’ section of this report.

## **3.0 HACT Governance and Accountability**

## 3.1 Governance and Accountability

### Barriers

- There is no inter-agency governing body – the current HACT Advisory Committee is advisory in nature and does not have the authority over participating agencies; and
- Need to enhance the clarity on accountability for HACT implementation – at headquarters, regional and country levels within agencies and among inter-agency.

### Inter-agency Governance

The primary inter-agency mechanism for HACT, at the headquarter level, is the HACT Advisory Committee. This body serves in an advisory capacity only, providing inter-agency policy and technical guidance and support. The Advisory Committee convenes on a monthly basis and consists of more than 25 individuals representing 10 agencies, of which only three agencies are currently required to implement the HACT Framework. *The composition of the HACT Advisory Committee may be amended to include only agencies implementing HACT, include a member of agency leadership (e.g. comptroller from each agency), and encourage regular attendance.*

*The United Nations may wish to establish a formal governance body for HACT, which has authority over inter-agency operations and will provide direction and oversight to HACT implementation, or add HACT oversight to the responsibilities of an existing governing body.* The establishment of a governance body for HACT would help to:

- Provide clarity on accountability, roles and responsibilities for agencies participating in HACT;
- Establish consistent expectations and oversight with respect to HACT compliance and monitoring; and
- Validate the HACT framework as a significant operational mechanism for the United Nations and provide an interface for discussion and queries of the Board of Auditors.

*The UNDG should consider amending the UNDG Fiduciary Management Oversight Group (FMOG) terms of reference to include the above noted responsibilities related to the HACT Framework.* On an annual basis, UNDG and UNDOCO analyses of HACT implementation should be reported to the HACT Advisory Committee and proposed inter-agency governance body so they can understand the trends and patterns in implementation and provide direction where there are challenges associated with achieving compliance.

### Agency Accountability for HACT

The misinterpretations of the term ‘harmonized’ as meaning ‘joint’ has led to confusion around who is accountable for HACT implementation, as this is often perceived to be an inter-agency role (such as the Resident Coordinator) and at headquarter level, that interpretation of the term ‘harmonized’ may suggest a gap in senior leadership accountability.

The revised framework clarifies that ‘harmonized’ in HACT means first and foremost a ‘standardized’ approach to cash transfers and other mechanisms to be used by each agency, independent of whether partners are agency specific or shared. This clarification of definition should help to *confirm the*

*accountability for HACT implementation by each agency with the agency's leadership (i.e. its executive director or administrator).*

These leaders should consider ways to ensure that their 'tone at the top' is clearly communicated and understood by agency staff and field teams, in particular:

- The HACT framework was adopted pursuant to United Nations General Assembly Resolution 56/201
- That use of HACT is mandatory and expected for their agency
- That management will be held accountable for their role in HACT implementation, oversight and monitoring and their performance assessed accordingly

In addition to communications similar to the above, agency leaders should consider identifying an *appropriate mechanism, such as executive management team meetings, through which to be updated on agency specific HACT implementation efforts and any issues arising*, in particular where there may be variances between HACT and agency specific operating models to address.

## Accountability at the Country Level

The primary responsibility and accountability for the implementation of HACT lies with the respective agency Country Representatives at the country level. For shared IPs, Country Representatives are accountable for HACT implementation where their agency is designated the lead agency.

### ■ Country Representative

The Country Representative is accountable for all funds disbursed by his/her agency in that country and is therefore accountable for HACT implementation at the country level for his/her agency. Country Representatives should have clear direction from agency leadership that its country office will be expected to implement HACT, and implementation of HACT is irrespective of whether the agency has shared partners (i.e. all IPs are subject to the HACT framework). Where agencies have shared partners (even where the agency is not the lead agency), if joint activities are not performed, the Country Representative will still be accountable for the assurance, or lack thereof, of that partner's cash transfers by his/her agency. *Agencies should develop specific HACT requirements to be added to the terms of reference for the role of the Country Representative and these responsibilities should form part of their performance appraisal process. Each Country Representative should have the performance goal that their country office has implemented HACT.*

### ■ Resident Coordinator

The Resident Coordinator is not accountable for the funds disbursed by each agency, as this remains within the purview of the agency Country Representative. However, the Resident Coordinator will be responsible for:

- Supporting agencies to implement HACT, for example, through promoting the benefits of HACT with national partners; and
- Encouraging agencies to coordinate activities where there are shared implementing partners and creating a working environment which helps agencies to identify and plan for coordinated activities

*UNDG should develop specific HACT terms of reference for the role of the Resident Coordinator and these responsibilities should form part of their performance appraisal process.*



## Accountability at Regional Level

Where regional offices are providing cash transfers to IPs, regional offices will be accountable those transfers. *The roles and responsibilities of regional offices with respect to oversight of HACT implementation by country offices should be based on agency specific needs and resources. KPMG recommends that HACT oversight by headquarters is significantly enhanced, however, agencies may choose to apply some of the oversight role to the regional office according to capacity of those offices.*

## Summary of HACT Accountability

|                     | Country                                                                      | Regional                   | Headquarters                          |
|---------------------|------------------------------------------------------------------------------|----------------------------|---------------------------------------|
| <b>Agency</b>       | Country Representatives for agency implementation of HACT                    | Based on agency discretion | Executive Directors/Administrators    |
| <b>Inter-Agency</b> | Country Representatives for HACT activities for common implementing partners |                            | Proposed inter-agency governance body |

## 3.2 Roles and Responsibilities

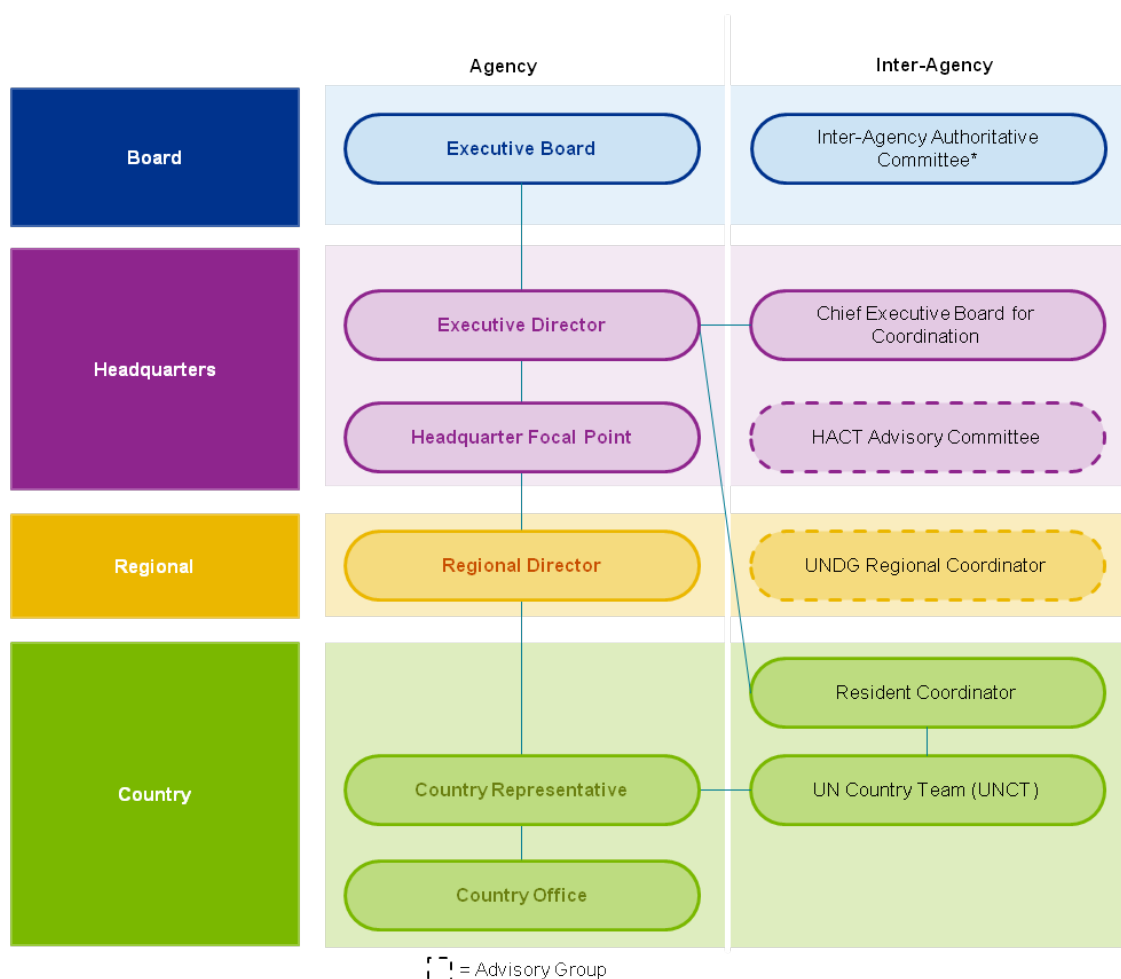
### Barriers

- Need to enhance clarity on roles and responsibilities of those involved in HACT implementation – at agency and inter-agency level and across headquarters, regional and country levels.
- HACT related roles and responsibilities have not been added to the terms of reference for specific individuals, against which they can be assessed against through agency appraisal processes.

### Overview

This section provides an overview of key roles and responsibilities for the various bodies involved in HACT implementation, more specific details of these bodies' roles and responsibilities are further described in the main body of this report.

*For the recommended roles and responsibilities described below, we would also recommend that outputs and results related to HACT be part of the performance plans and appraisal process for the individuals in these roles.*



## Headquarter Level

Key roles at the Headquarter level related to the HACT process are proposed as follows:

### Agency Roles and Responsibilities

#### ■ Agency HQ Focal Point

Similar to the current structure, agencies should confirm or establish their Agency HQ Focal Point for HACT at HQ level. The focal point should be one person or one person per region. Given the importance of appropriate assurance activities at the country level, we are proposing that the responsibilities of this role be increased as part of the revised framework. Most significantly, *we propose that this role undertake increased and systematic monitoring of country office implementation and be in frequent communication with country offices to help provide guidance and technical support to implementation and identify any issues with appropriate implementation that may need to be raised to the Comptroller, agency Leadership and/or the HACT Advisory Committee. When shared implementing partners exist and joint activities are to be performed, the Agency HQ Focal Point from each agency involved should work together to ensure appropriateness of activities at the country level.*

This role will likely be part of the finance function and report to the Comptroller. The HQ units currently described as having responsibility for HACT monitoring are:

- NEX Unit (UNFPA);
- Office of Finance and Administration (UNDP) and additional verification is performed by the Office of Audit and Investigations; and
- Office of the United Nations and Inter –Governmental Affairs (UNICEF)

*The specified contact information for the Agency HQ Focal Point should be updated as part of the revisions to the framework. The Agency HQ Focal Points should consider issuing a communication to country offices to (re)introduce themselves as part of the launch of the revised framework and confirm the country's office expectations for their role going forward.*

Under the proposed revisions herein, country offices will make available their proposed Agency Assurance Plans and supporting documentation to HQ, such as micro assessments, via the proposed shared site (discussed further in Section 6.2 HACT Tools) or existing agency specific database (if sufficient). *Agency HQ Focal Points should be responsible for establishing a monitoring schedule whereby HQ reviews a sample of 'Agency Assurance Plans' to confirm that the proposed oversight and monitoring of implementing partners is sufficient against the agency's desired level of assurance.* The monitoring role and suggested scope is described in more detail in the '5.1 Oversight and Monitoring of HACT Implementation' section of this report.

#### ■ Agency Internal Audit

*The scope of review of HACT in internal audits of country offices currently varies across agencies and there may be benefit to standardizing or sharing these scopes across agencies.* This role and responsibility should be further discussed between each agencies management and internal audit departments.

## Inter-agency Roles and Responsibilities

### ■ Development Operations Coordination Office (DOCO)

DOCO is the technical support it for UNDG, which provides the link between UNDG discussions at HQ and the work of the United Nations development system at the country level. DOCO's work focuses on supporting and strengthening the Resident Coordinator system with funding, policy guidance, and training. *Specifically related to HACT, DOCO should provide monitoring of HACT implementation at an aggregate agency level on behalf of UNDG through information reported by agencies.*

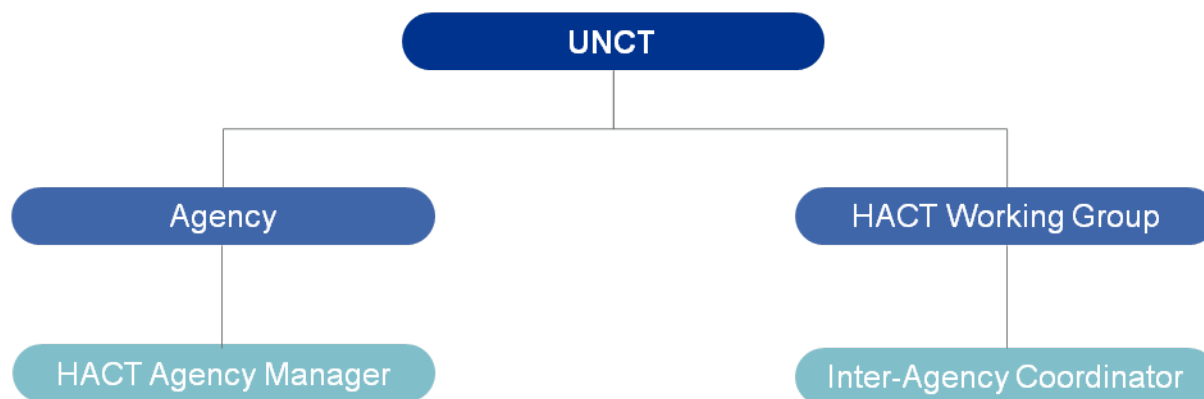
### ■ HACT Advisory Committee

The role of the HACT Advisory Committee is to provide inter-agency policy and technical guidance and support. The Advisory Committee is currently co-chaired by Finance and Programme based roles which is a good way to help ensure that HACT can be embedded and communicated as a mechanism that is reliant on both roles being active and working together.

The HACT Advisory Committee Co-Chairs should also seek to encourage an appropriate mix of programme, finance and audit staff as members of the committee (with the role of audit being an observer/advisor to preserve independence considerations). The Committee should also encourage regional and country representation where this is practical.

## Country Level

Key roles at the Country level related to the HACT framework are proposed as follows:



### ■ UNCT

At the country level, under the leadership of the Resident Coordinator and the Country Representatives, the UNCT is critical in setting examples and expectations. *The status of HACT implementation and discussion of related issues should be a standing agenda item on UNCT meetings.*

### Agency Roles and Responsibilities

#### ■ HACT Agency Manager

Each agency should identify a HACT Agency Manager who is the key point of contact for HACT implementation in their agency and responsible for day-to-day management of HACT activities and arising issues. This role may be suitable for an existing position and does not necessarily require full-time commitment; agencies should use their discretion in establishing this role.

The HACT Agency Manager is responsible for developing and maintaining the Agency Assurance Plan (further discussed in section 4.5 of this report) that summarizes their agency's implementing partners, their risk ratings and dates of micro assessments, cash transfer modality, and planned monitoring and audit activities.

The HACT Agency Manager is the key role in keeping the Agency Assurance Plan up to date, and coordinating assurance related activities within its agency. For example, the HACT Agency Manager should ensure that programme staff is raising any issues noted in programmatic monitoring activities that may impact proposed assurance activities, and ensuring that the results of assurance activities are followed up on (e.g. changes to risk ratings or planned activities). The HACT Agency Manager is responsible for ensuring that the results of HACT activities become embedded as action items and assigned to a responsible party.

The HACT Agency Manager is responsible for working with the HACT Inter-Agency Coordinator to share information as necessary for effective coordination of HACT. For effective implementation, this information should not be limited to shared implementing partner activities (discussed more in HACT Inter-Agency Coordinator role below).

### Inter-Agency Roles and Responsibilities

#### ■ HACT Inter-Agency Coordinator

Typically, countries that have had more success in implementing HACT are those which designated or recruited a centralized resource with responsibilities for managing and coordinating HACT. *We recommend that this role become highly recommended for countries implementing HACT, even for countries where the number of shared activities is known or planned to be low.* This role may be suitable for an existing position and does not necessarily require full-time commitment; it may be that one of the HACT Agency Managers within that country can assume this role.

The primary role of the HACT Inter-Agency Coordinator is to ensure that HACT activities within the country are implemented consistently by each agency, and where appropriate, coordinated across agencies. They will also serve to support agencies when discussing the benefits and approach of HACT with partners. The HACT Inter-Agency Coordinator role should be experienced in financial management, audit, and assurance. It is recommended that this is a dedicated full time role. The cost of the role should be shared across HACT agencies. *UNDG should develop specific cost sharing guidance to support country offices with determining appropriate cost sharing arrangements for the HACT Inter-Agency Coordinator role.*

The HACT Inter-Agency Coordinator should be responsible for data collection and coordination across agencies and maintaining consolidated records, in particular: list of country implementing partners, planned and actual cash transfers, transfer modality data, assessment results and assurance plans and results. They should also be responsible for ensuring that agencies post their Agency Assurance Plans and information on the proposed shared site, or existing agency specific database if sufficient, to be available for HQ monitoring (further discussed in the '6.2 HACT Tools' section of this report). Additionally, the HACT Inter-Agency Coordinator should provide secretarial support for the HACT Working Group (further detailed below).

#### **Role of HACT Inter-Agency Coordinator where no shared assurance activities exist**

The role of the HACT Inter-Agency Coordinator is important even where there are no shared assurance activities. The HACT Inter-Agency Coordinator should be provided with each Agency Assurance Plan, as this role is key to ensuring consistent interpretation and implementation of the framework by each agency.

The HACT Inter-Agency Coordinator, in conjunction with the Resident Coordinator, can offer feedback to agencies on the appropriateness and consistency of assurance plans and offer guidance through a peer review. The HACT Inter-Agency Coordinator should obtain a sample of agency HACT documentation and review for consistency across agencies (e.g. application of risk ratings, planned assurance activities according to risk rating).

#### **Role of HACT Inter-Agency Coordinator where potential for shared assurance activities exists**

The HACT Inter-Agency Coordinator should be responsible for identifying, encouraging and facilitating shared assurance activities where possible. In particular, the HACT Inter-Agency Coordinator should help agencies determine the appropriate level of assurance that will meet each agency's requirements and provide guidance on how to allocate the sharing of those activities.

#### ■ **HACT Working Group**

*Each country should be encouraged to establish a HACT Working Group (WG), which is a sub-group of the UNCT, comprised of operation and programme staff from each participating agency.* The group should meet on a regular basis and be responsible for planning and facilitating the implementation within the country. Specific duties could include the following:

- prepare the AWP and budget of the HACT WG;
- develop annual Agency Assurance Plan;
- plan periodic trainings for agency and implementing partner staff regarding HACT methodology and reporting;
- advise on risk manage approaches in the implementation of HACT;
- monitor implementation;
- develop a central repository of all HACT reports and materials; and
- share lessons learned and best practices

The participation of implementing partners in the WG, noted as a current practice in some countries, has been seen as a way to promote national ownership and increase capacity, as they understand the expectations and requirements of the HACT framework.

### Regional Level

Based on our understanding of current implementation, United Nations regional offices may not consistently have HACT-experienced advisors to be able to provide detailed guidance to country offices on HACT implementation issues. In such instances, the United Nations regional office should recommend country offices speak to other country offices to share lessons learned on how to address specific implementation challenges.

Regional Directors should be required to follow up on inconsistent implementation and help resolve country level implementation issues where possible.

### Country Team Programme Staff

Effective implementation of HACT will require consideration of HACT as part of regular programme planning and monitoring activities. It is important that HACT activities become embedded in programmatic activities such as combining financial monitoring procedures with programme monitoring activities in order to minimize the burden on partners and use United Nations resources efficiently. Equally, programme staff are an important part of the capacity assessment process and their observations on the partner's activities should be considered throughout the programme cycle and as necessary be used to inform or adjust assurance activities.

## 4.0 HACT Processes



# 4.1 Macro Assessment

## Barriers Identified

- Results of macro assessments do not fall under corporate priorities or mission (and therefore funding) of any United Nations agency, so are not prioritized.
- Lack of agency directive and capacity to follow up on capacity development recommendations that arise through the macro assessment.
- Significant challenges in being able to time and coordinate within the Common Country Assessment (CCA) process, as recommended by the current framework.
- Overall, perception that other reports are more useful (e.g. PEFA).

## Proposed Revisions

### Purpose

The purpose of the macro assessment is to ensure adequate awareness of the Public Financial Management (PFM) environment within which agencies will provide cash transfers to implementing partners. *The use of the macro assessment as a key programme instrument to assist the country team with programme design should be emphasized in the revised framework.* Where possible, the macro assessment should be completed as part of the Common Country Assessment (CCA) to limit the burden on implementing partners although the challenges associated with this timeframe are acknowledged.

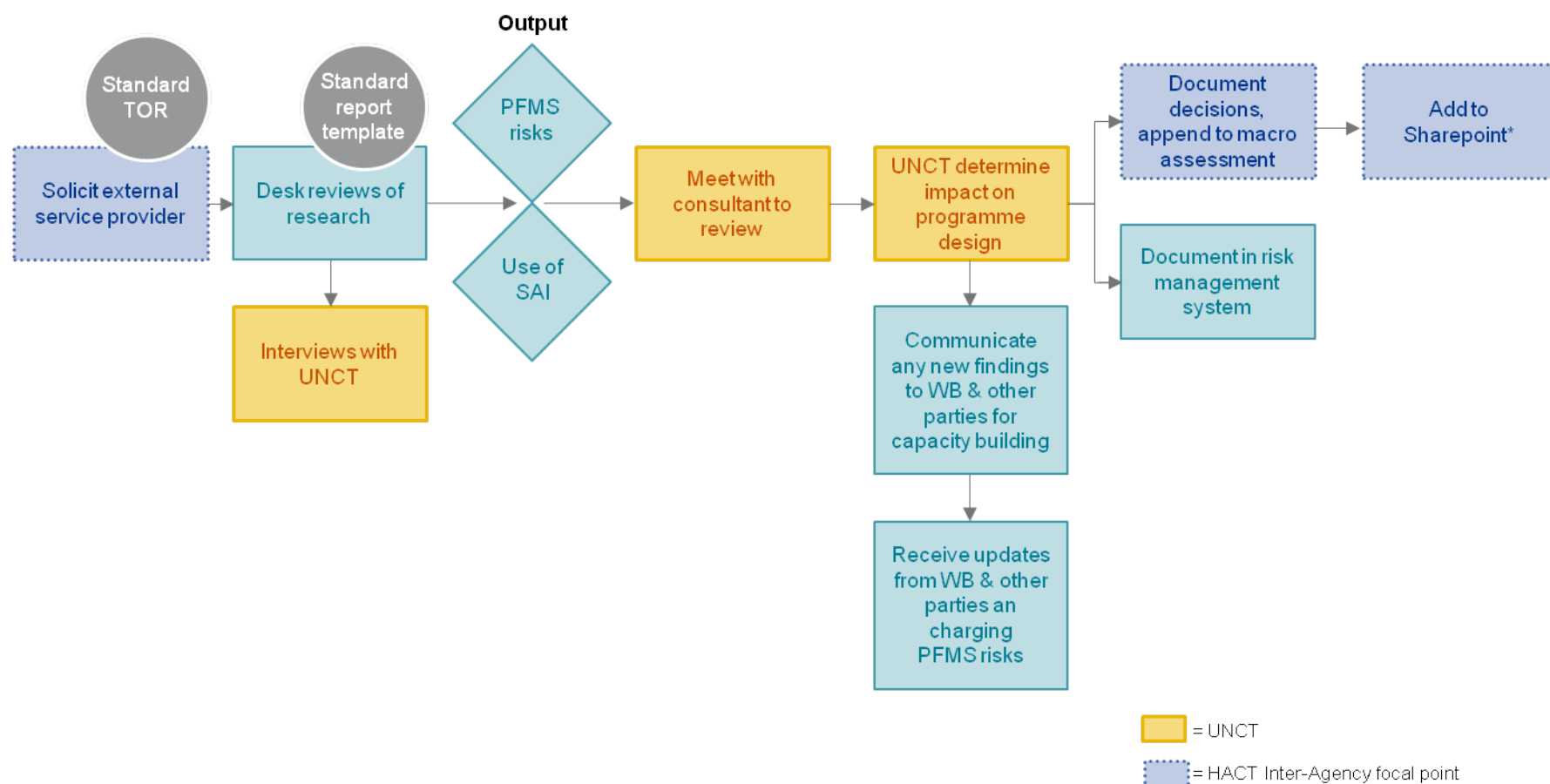
The **two primary outputs** of the macro assessment are as follows:

- 1) The risks related to use of the PFM for cash transfers within the country for government partners and other country specific knowledge for non-government partners (i.e. environmental conditions, foreign exchange fluctuations, existence of black market); and
- 2) A determination on whether the Government's Supreme Audit Institution (SAI) has the capacity to undertake the scheduled and special audits of government implementing partners.

Under the current framework, the macro assessment is presented as an opportunity to identify areas for capacity development of the government PFM system. Recognizing that Agencies may not have the capacity, directive or comparative advantage to deliver such capacity development, the revised framework should propose that any observations on PFM and SAI are communicated to the World Bank and other relevant institutions. *The framework should therefore remove reference to the capacity development objective of the macro assessment which may confuse the main purpose of the assessment.* The UNCT and HACT Working Group should ask to stay informed of any related activities by the World Bank and others that may augment the capacity of the PFM and SAI and may warrant a re-assessment or update to the macro-assessment.

*The framework should be clarified to remove reference of the macro assessment being solely used to determine cash transfer modalities,* as this is the primary purpose of the micro assessment. The following diagram provides a graphic depiction of the macro assessment process.

Figure 2: Macro Assessment Process



*\*If Sharepoint has not been developed information should be provided to the Inter-Agency Coordinator for retention.*

### Process

The current framework provides a clear articulation of the expectations and requirements for the macro assessment. We recommend the following clarifications to the framework:

- *The requirement that a macro assessment be performed once per programme cycle should be emphasized.* This will ensure that agency country offices have current and relevant information regarding the countries they operate, which are continuously changing and developing.
- *The requirement that the macro assessment be performed before harmonized cash transfer procedures are applied should be emphasized, otherwise high risk assumed.* In addition, the framework should clarify that agency country offices should consult with HQ in the case that a macro assessment cannot be performed.
- The macro and micro assessments should take into account the experience and knowledge of agency staff and this understanding should be allowed to inform the outcomes of the assessments. *The Terms of Reference for the external service provider performing the macro assessment should therefore incorporate interviews with agency staff in order that their direct experience and knowledge of the country context can be factored into the assessment of the country's PFMS and use of the SAI.*
- While the scope of the macro assessment, as a consolidation of existing assessments of the public financial management system rather than original research, is appropriate, the intended use of the tool and its applicability to programme planning by the agencies needs to be more clearly emphasized. *The country office should be required to document as an attachment or response to the macro assessment their understanding of the PFMS and its effect on the local operating environment, as a result of the macro assessment, has been used to inform programme design and any specific activities or approaches that will be taken in direct recognition of the identified risks. The risks identified in the macro assessment should also be incorporated into any country level risk management activities and logs, as appropriate.*
- *The macro assessment should be expanded to provide a broader understanding to the agency country office of the country in which the programme will be operating (e.g. environmental conditions, legal regulations and judicial environments, foreign exchange fluctuations, existence of black market).* If information regarding specific areas included in the macro assessment is not available, the assessment should document this and not engage in seeking original research.
- *The revised framework should further emphasize that the macro assessment is a desk based review, based on the evaluation of existing authorized PFM assessments/data performed by other organizations, and does not require new data collection.* The revised guidance should provide a listing of available sources for existing PFM assessments/data to be used in the macro assessment.

### Roles and Responsibilities

- *The framework should confirm the expectation that the macro assessment be performed by an external service provider.* Agency capacity to perform the macro assessment may not be available and the independence of an external service provider will help ensure that relationships between the agencies and the government are not unnecessarily put at risk.
- *The HACT Agency Manager is responsible for ensuring that a macro assessment is performed before harmonized cash transfer procedures are applied or documenting rationale and mitigating actions where a macro assessment is determined to not be appropriate.*

- *The HACT Inter-Agency Coordinator should be responsible for managing the macro assessment process on behalf of the HACT Working Group, including procurement of the external service provider and coordinating communication with government.*
- *The agency Country Representative should be responsible for discussing the macro assessment process with government partners to ensure they understand the concept and participate in the process.* If the government partner is resistant to the macro assessment, the agency Country Representative should reemphasize that the assessment is performed based on existing information.

### Tools

The macro assessment should be enhanced as follows:

- Expand the assessment to consider key risks related to procurement and national tendering capacity. An understanding of these processes may inform programme design, for example, by increasing the number of direct procurement activities by the UN, procurement planning, and so forth.
- The range of considerations with respect to the assessment of the SAI should be broadened to consider whether the:
  - Use of the SAI is required by legislation;
  - SAI is considered independent;
  - SAI is willing to provide HACT audits; and
  - SAI might have capacity to procure and manage external audit providers to outsource its audit. If outsourcing, does the SAI has sufficient capacity to understand the results and act accordingly in response to findings.
- If the use of the SAI is required by legislation, however the macro assessment was not favourable in the assessment of the SAI; agencies should encourage the SAI to use an external service provider with funds provided by the United Nations. This process will provide greater assurance to the agencies and capacity development opportunities to the SAI.
- We noted variances in the length and format of macro assessments deliverables (e.g. while the framework recommends a report of four pages in length, some viewed were much longer). *As part of the revised framework, agency country offices should have access to a template deliverable that can be provided in solicitations for external service providers.* The agency Country Representative should be required to sign off on the final deliverable.

## 4.2 Micro Assessment Planning

### Barriers Identified

- The Global Assessment noted challenges associated with inter-agency coordination, quality of micro assessments and managing the volume of micro assessments to be performed.
- Lack of implementation monitoring has contributed to inconsistent application of guidance provided in the framework and delayed execution of assessments.
- Significant challenges in being able to schedule and coordinate shared execution among agencies with shared implementing partners, as recommended by the current framework.
- Challenges regarding the quality of assessments from external service providers due to insufficient inter-agency coordination, management, and perceived lack of skills in the public sector.

### Proposed Revisions

#### Purpose

This process of micro assessment planning has been introduced as a new concept to the revised framework. The purpose of the micro assessment planning process is to provide a mechanism for agencies and country offices to determine which partners require a micro assessment and to prioritize those assessments. The proposed revisions provide consistency and clarity to the overall risk based approach to micro assessment planning: actual thresholds and coverage metrics will be agency specific based on capacity, risk tolerance and other factors. Agencies should also monitor implementation so at any point activities can be scaled up or down as appropriate.

#### Process

- Even with support from external service providers, it may not be possible to perform micro assessments for all implementing partners within the first two quarters of year 1 of the programme cycle. *Agency Assurance Plans should include a schedule for conducting micro assessments of implementing partners that will help prioritize micro assessments when agencies have a large number of implementing partners.* In such instances, and in particular where there is little turnover in implementing partners, it would be permissible for implementing partners to have a micro assessment performed later in the programme cycle. The result of that assessment should be valid for the same period as the programme cycle (e.g. five years) even if the assessment is performed later in one programme cycle (i.e. the assessment can carry forward into the next programme cycle). If selected for micro assessment, implementing partners should be assigned a high risk rating, with assurance activities planned accordingly, until the scheduled micro assessment has been performed – this should further highlight to implementing partners the benefit of HACT.
- The framework provides that agencies should draw from available information about the financial management capacity of the implementing partner (reviews of past experience, recent assessments by other Agencies, NEX/NIM audit reports, or recent assessments completed by other development partners). However, in practice, country offices do not appear to effectively incorporate this information into the assessment or understand how this information can contribute to the overall risk rating or cash transfer modality. *The framework should provide guidance how to effectively incorporate other*

## 4.2 Micro Assessment Planning (continued)

available data into the analysis of the micro assessments performed by an external service provider when assessing the overall risk rating and cash transfer modality for implementing partners (e.g. list of approved documents).

- The 'Micro Assessment Plan' eliminates the dollar value threshold in determining which partners require a micro assessment and provides a risk based approach based on total budgeted agency programme funding. This revised risk based approach for micro assessment planning has been outlined below and an example has been provided in Appendix 4:

|                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Step 1:</b> Populate the Micro Assessment Plan with the complete listing of agency IPs in the country and sort the data in descending order based on 'Budgeted programme cycle funding' (per agency)                                                                                                                                                                                  |
| <b>Step 2:</b> Identify the top IPs based on 'Budgeted programme cycle funding' that make up at least 60% <sup>4</sup> of total budgeted programme cycle funding<br><br><i>Consideration should exclude budgeted programme funding related to agency salaries and benefits, which are the responsibility of the agency.</i>                                                              |
| <b>Step 3:</b> Consider other elements included in the 'Micro Assessment Plan' for all IPs to identify other IPs that may require an assessment be performed (e.g. negative past assessments, negative audit opinions/findings, lack of previous audit, etc.) in addition to those identified in Step 2 based on agency discretion                                                       |
| <b>Step 4:</b> Based on the results of Step 2 & 3 above, determine which IPs require a micro assessment to provide coverage of at least 60% <sup>5</sup> of 'Budgeted programme cycle funding'.<br><br><i>Judgment should be utilized in this determination, considering both materiality of funds provided to the IP (Step 2) and severity of other available information (Step 3).</i> |
| <b>Step 5:</b> Based on Step 3 and 4 above, assign each implementing partner selected for micro assessment with a priority rating.                                                                                                                                                                                                                                                       |

- *Implementing partners not selected for micro assessment should be designated as 'non-assessed' and agency discretion should be used to determine necessary programme and assurance activities.* At any point during project implementation, particularly where issues may be identified through FACE form reviews and/or programme monitoring activities, agencies may determine that more assurance is required for these partners, and may require a micro assessment, spot check or other HACT activities to be performed.
- Consistent with a risk based approach, the 'Micro Assessment Plan' is designed to limit the number of implementing partners that require a micro assessment to those that are financially significant and/or

<sup>4</sup> Agencies to determine appropriate level of coverage appropriate to satisfy agency requirements.

<sup>5</sup> Agencies to determine appropriate level of coverage appropriate to satisfy agency requirements.

present specific risks to the country office. *If a significant number of partners are identified as requiring a micro assessment (i.e. over 90% of all implementing partners), the country office should re-evaluate the steps in the 'Micro Assessment Plan' and discuss this matter with the Agency HQ Focal Point to identify a manageable number of IPs for micro assessment.*

### Roles and Responsibilities

- *The HACT Manager should be responsible for managing the micro assessment process* including preparation of the 'Micro Assessment Plan', procurement of the external service provider, inter-agency coordination for shared implementing partners, maintenance of records, and coordinating communication with partners. The use of a global or regional, agency specific or inter-agency, LTA with an external service provider may provide greater consistency and efficiency for HACT implementation.

### Tools

*The Framework should provide a template for country offices to utilize for the micro assessment planning process based on the risk based approach detailed above.*

| Tool                          | Location   |
|-------------------------------|------------|
| Example Micro Assessment Plan | Appendix 4 |

### Other Considerations

- *Depending on agency preference, the process of micro assessment planning can be centralized (i.e. performed at HQ) or decentralized (i.e. performed at the country level).* This process could also be part of the scope of the external service providers, who could prepare the micro assessment plan for the country office. Agencies may wish to centralize this process during the transition and roll-out of the revised HACT framework to maintain direct oversight until the revised framework is fully understood at the country level.



## 4.3 Micro Assessment Execution

### Barriers Identified

- The Global Assessment noted challenges associated with inter-agency coordination issues, quality of micro assessments and managing the volume of micro assessments to be performed.
- Framework does not provided explicit guidance for linking the overall risk rating from the micro assessment to the appropriate cash transfer modality and required assurance activities (suggested type, scope and frequency).
- Overall, there is a perception that the assessments are not useful and completed due to obligation as opposed to the stated purposes in the framework.
- Lack of compliance monitoring has contributed to inconsistent application of guidance provided in the framework and delayed execution of assessments.
- Significant challenges in being able to schedule and coordinate shared execution among agencies with shared implementing partners, as recommended by the current framework.
- Challenges regarding the quality of assessments from external service providers due to insufficient inter-agency coordination, management, and perceived lack of skills in the public sector.
- Lack of a systematic follow-up mechanism on the findings and recommendations identified.
- Lack of guidance related to applicability and application to NGOs and/or sub-recipients.

### Proposed Revisions

#### Purpose

The purpose of the micro assessment is to evaluate the implementing partner's financial management capacity (i.e. accounting, procurement, reporting, and internal control) to assist in determining the overall risk and appropriate corresponding cash transfer modality.

The **two primary outputs** of the micro assessment are as follows:

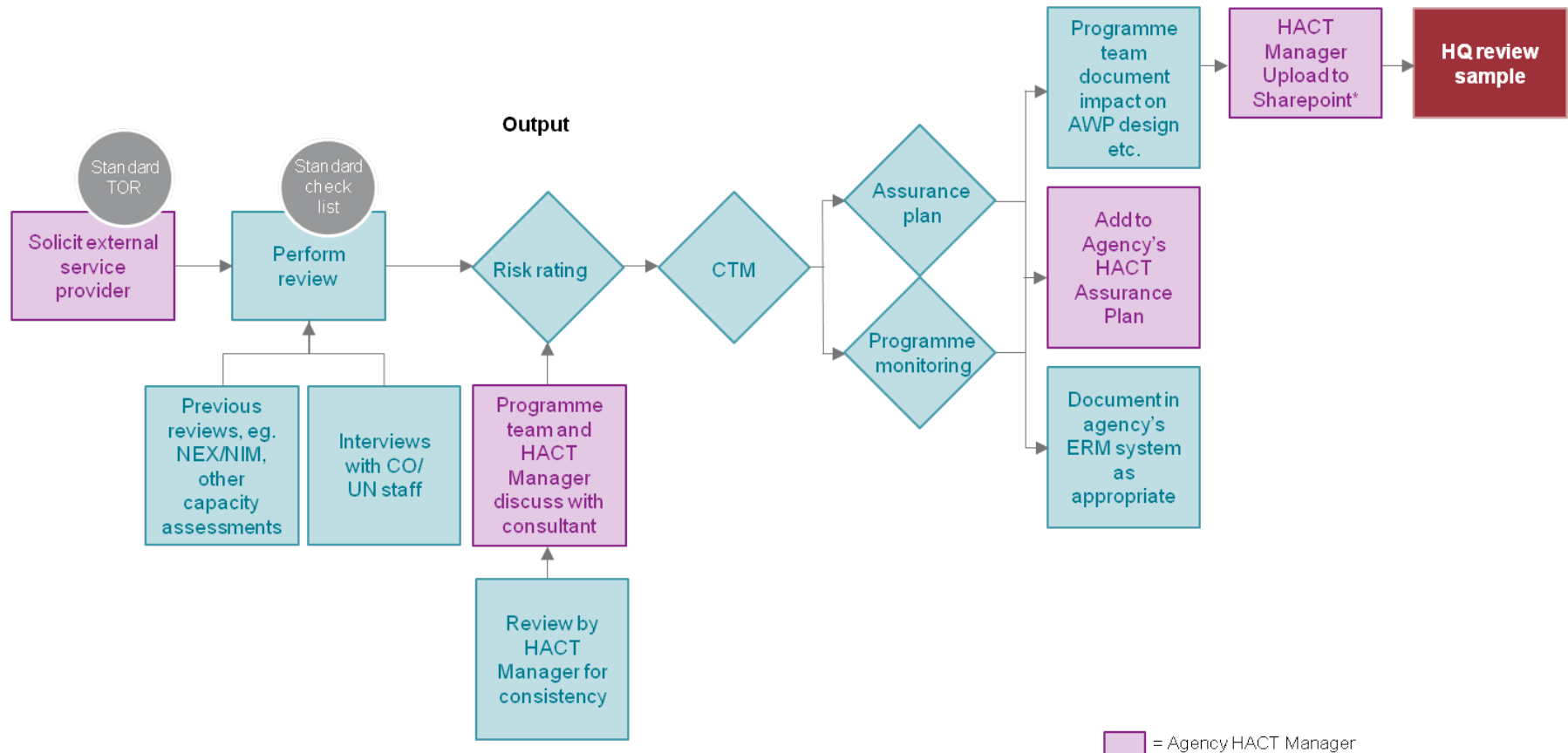
- 1) Overall risk rating related to cash transfers to implementing partners (Low, Moderate, Significant or High)
- 2) Appropriate cash transfer modality (Direct Cash Transfer, Direct Payment, Reimbursement, or Direct Agency Implementation)

*The purpose and benefits of the micro assessment should be emphasized to the country offices by each agency's HQ so that these assessments are viewed as a component of the standard overall assessment process of an implementing partner, in addition to other available sources (e.g. historical engagement with the agency, previous audit reports, etc.).*



The following diagram provides a graphic depiction of the micro assessment process.

Figure 3: Micro Assessment Process



*\*If Sharepoint has not been developed information should be provided to the Inter-Agency Coordinator for retention.*

*Note: The specific timeline of the micro assessment process is dependent on many factors (e.g. type of arrangement (if any) with external consultant, availability and willingness of IP, availability of internal staff, etc).*

### Process

The current framework provides a clear articulation of the expectations and requirements for the micro assessment execution. We recommend the following clarifications to the framework:

- While the scope of the micro assessment, as an overall assessment of the implementing partner's financial management capacity, is appropriate, the intended use of the assessment and its applicability to programme planning by the agency country office needs to be more clearly emphasized. *The agency country office should be required to document as an attachment or response to the micro assessment how the agency country office's understanding of the implementing partner's financial management capacity, has been used to inform programme design and any specific activities or approaches that will be taken in direct recognition of the identified risks. The risks identified in the micro assessment should also be incorporated into any country level risk management activities and logs, as appropriate.*
- Details regarding the required micro assessments should be added to the 'Agency Assurance Plan', further detailed in section 4.5 below, including risk rating and corresponding cash transfer modality. *Agency country offices should evaluate the overall distribution of risk ratings to ensure the distribution is appropriate for a risk based approach. If a significant number of partners are identified as 'Significant' or 'High' risk (i.e. over 90% of all implementing partner), the country office should re-evaluate the micro assessment and possibly discuss this matter with the Agency HQ Focal Point.*
- *The framework should confirm the expectation that the micro assessment be performed by an external service provider.* Agency capacity and skills to perform the micro assessment may not be available and the independence of an external service provider will help ensure that relationships between the agencies and the implementing partner are not unnecessarily put at risk.
- *For shared implementing partners, if inter-agency coordination of micro assessment is not able to done timely agencies should progress with assessment to ensure appropriate steps are taken to assess overall risk and cash transfer modality prior to distributing cash.*
- *A sample of micro assessments (including overall risk rating, planned assurance, and cash transfer modality) should be reviewed by Agency HQ Focal Point to ensure appropriateness compared to expectations and desired level of assurance.*

### Roles and Responsibilities

- *The HACT Agency Manager is responsible for ensuring that a micro assessment is performed before harmonized cash transfer procedures are applied or documenting rationale and mitigating actions where a micro assessment is determined to not be appropriate.*
- *The HACT Manager should be responsible for managing the micro assessment process including procurement of the external service provider, inter-agency coordination for shared implementing partners, maintenance of records, and coordinating communication with partners.*
- *The timing for the receipt of micro assessment reports should be identified in the Agency Assurance Plan and the final report posted on the HACT SharePoint so that HQ can monitor implementation.*

## Tools

- *The Framework should provide guidance detailing how to select the appropriate cash transfer modality to correspond to the overall risk rating determined from the micro assessment.* Additionally, the guidance should include common risks associated with each modality for country office reference. However, it is acknowledged that the micro assessment risk rating is not the sole determinant of the cash transfer modality. Planned programme activities and other factors will also inform the appropriate CTM choice. Country offices should discuss the appropriate option with the implementing partner. This could also demonstrate the benefit of the framework to the implementing partner by providing them with the rationale for the cash transfer modality selected and allow for the develop of an action plan to possibly decrease their risk rating and obtain a more desired cash transfer modality going forward. This recommendation is consistent with feedback provided by the various country offices interviewed during this consultancy. An example of such guidance has been detailed below:

| Overall Risk Rating | Cash Transfer Modality (CTM)                   |
|---------------------|------------------------------------------------|
| Low                 | Direct Cash Transfers                          |
| Moderate            | Direct Cash Transfers<br>Reimbursement         |
| Significant         | Direct Payment                                 |
| High                | Direct Payment<br>Direct Agency Implementation |

*\*The recommended guidance provided above should be finalized by the agencies to accommodate agency policies and capacity.*

- *The micro assessment 'Checklist A' provided in the original framework should be replaced with the revised Micro Assessment Planning process.*
- *The micro assessment "Checklist B: Financial Management Questionnaire" should be renamed 'Micro Assessment Questionnaire' and expanded to incorporate additional financial management capacity questions that will assist with assessing the financial management capacity of the implementing partner.* An example of such addition includes, 'Does the IP have a process in place to evaluate the impact of any deficiencies or negative findings identified through reporting or discussions with the other offices/entities? If so, describe the process.'
- *The 'Micro Assessment Questionnaire' should be updated to include a standardized method for completing the assessment, assigning risk ratings to each question and determining the overall risk rating.*
- Terms of Reference (TOR) should be developed which are readily available for country offices to utilize across all agencies implementing HACT, including an appendix to be completed by the country office for specific information related to the implementing partner.

| Tool                           | Location   |
|--------------------------------|------------|
| Micro Assessment Questionnaire | Appendix 5 |
| Agency Assurance Plan          | Appendix 6 |

## Other Considerations

- *Where possible, the agency country office should contract with a single/limited number of external service providers to complete all micro assessments on behalf of all agencies.* This will help to ensure a consistent process is followed and determination of overall risk ratings among implementing partners is consistent. This process may also provide better value due to potential internal time saving (routine process for coordination and Terms of Reference) and volume of assessments requested. Greater cost efficiencies can be achieved when there is a global sourcing for all agencies.

## 4.4 Cash Transfers Disbursement and Reporting

### Barriers Identified

- *Lack of country office support of the risk based HACT framework has contributed to modifications of the FACE forms and continued requests for implementing partners to provide supporting documentation with FACE form.*
- Lack of understanding and consistent application of the process for handling any balance of funds authorized for use in a reporting period that remained unspent as of the date of the form.
- Inconsistent processing timeline of disbursements between agencies provides challenges for implementing partners to execute planned activities each reporting period.
- Delay in cash transfers through government/Ministry of Finance causes delays in implementation of programme activities by partners.

### Proposed Revisions

#### Purpose

The purpose of the Funding Authorization and Certificate of Expenditures (FACE) form is to establish a simplified and harmonized tool that is intended to replace agency-specific reporting formats and requests for expenditure supporting documentation from implementing partners.

The FACE form supports several important functions:

- Request for funding authorization;
- Reporting of expenditures; and
- Certification of expenditures.

#### Process

The current framework provides a clear articulation of the expectations and requirements for the FACE form. We recommend the following clarifications to the framework:

- *Agency Country Representatives and Resident Coordinators should reinforce the concept of the FACE form and advise programme staff not to modify the template provided or request supporting documentation from IPs.* Where staff have suggestions to improve the FACE, these can be coordinated through the HACT Agency Manager and Inter-Agency Coordinator at the country level.

#### Roles and Responsibilities

- *FACE forms should be reviewed by the HACT Agency Manager and further according to agency specific guidelines.*

#### Tools

- *Agencies should develop guidance detailing the estimated timeline for the flow of funds from the agencies to the implementing partners to assist them in better planning for programme activities.*

## 4.5 Assurance Planning

### Barriers Identified

- HACT assurance mechanisms, as they are currently being implemented, fail to provide assurance as to whether the funds transferred were used for the appropriate purpose and in accordance with stipulated procedures
- Lack of clear or systematic planning of HACT assurance activities
- Lack of oversight to determine whether proposed assurance activities are commensurate with the results of the micro assessments
- Difficulty in providing coordination between participating agencies for shared assurance planning
- Agencies do not have a clear understanding of the assurance activities of the other agencies involved in HACT, which presents challenges when attempting to perform such activities shared implementing partners.

### Proposed Revisions

#### Purpose

The planning of assurance activities is one of the critical success factors in implementing HACT, and is an important factor in agency management at HQ, and other stakeholders, obtaining comfort in the overall management of funds at the country level. As a risk based approach, HACT should allocate the strongest assurance activities towards implementing partners with the weakest financial/procurement management practices, as identified in the micro assessment.

Planning of assurance activities should be guided by:

- HACT assessments which identify risks at the macro-economic and implementing partner level;
- Internal United Nations capacity and budget to implement assurance activities; and
- Total programme budget and total IP population – assurance activities are driven by total programme coverage rather than dollar value thresholds.

The above noted considerations should not limit the overall assurance deemed necessary by the agency.

#### Scope

There are typically three mechanisms in the HACT framework available to agencies to contribute to the assurance of transferred funds:

- Periodic on-site reviews of implementing partner's financial records for cash transfers ("spot checks");
- Programmatic assurance of the implementation of supported activities; and
- Scheduled and special audits of implementing partner's internal controls for the management of cash transfers.

## Process

The process for developing the HACT 'Agency Assurance Plan' is illustrated in Figure 4, described below, and an example template has been provided in Appendix 6:



- The Agency Assurance Plan should be developed at the beginning of the programme cycle, no later than 6 months after the start of the programme, and incorporate planned activities into the AWP or agency equivalent. If micro assessments have not been completed at that stage the risk rating for that IP should default to high until such assessment can be completed.
- The HACT Manager will draft the plan based on the risk ratings. The suggested guidance for assigning assurance activities to corresponding risk ratings is provided below:

Suggested guidance for assurance activities according to risk rating based on a five year programme cycle:

| Risk Rating        | Spot checks*                            | Programme Monitoring  | Audit Frequency                               | Audit Type                                                                                                        |
|--------------------|-----------------------------------------|-----------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| <b>Low</b>         | 1 per year, excluding year of audit     | Per agency guidelines | Third or fourth year of the programme cycle   | Internal Controls Audits                                                                                          |
| <b>Moderate</b>    | 1 – 2 per year, excluding year of audit |                       | Second and fourth year of the programme cycle | May switch to financial audit if significant issues or concerns identified in spot checks                         |
| <b>Significant</b> | None                                    |                       | Annual                                        | Financial Audits                                                                                                  |
| <b>High</b>        | None                                    |                       | Annual                                        | If receive two sequential audits with unmodified opinion, perform an internal controls audit for remaining period |

\*Each spot check reviews at least 60%<sup>6</sup> of total expenditures reported on the selected FACE form for testing (i.e. 1 FACE form per year for low risk implementing partner), this assurance activity is not intended to provide 100% coverage of expenditures during the entire year or programme cycle.

The guidance provided above reflects KPMG's recommendation; agencies should develop specific guidelines for shared implementing partners, which accommodate the needs of each agency. Additionally, agencies should develop agency specific guidance to be used for implementing partners that are not shared with other agencies, which may vary from the shared guidance provided above. The feedback provided by the various country offices interviewed during this consultancy was that they would benefit such guidance, specifically related to HACT assurance activities.

<sup>6</sup>Agencies should determine the appropriate level of coverage to satisfy desired level of assurance.

Appendix 3 provides graphic illustrations of the suggested planned assurance activities and frequency for each risk rating.

2

- The HACT Manager will convene a meeting with other programme and finance/operational staff to consider additional variables in the assurance planning process, including:
  - The programme monitoring schedule and ability to coordinate any spot checks with programme monitoring site visits to help minimize the burden on the IP;
  - The annual work cycle and any known busy periods where the IP and/or United Nations staff may have reduced capacity/availability to execute or be subject to assurance activities;
  - Capacity (both skills and time) of United Nations staff to implement spot checks; and
  - Availability and cost of external service provider support to execute activities within the plan.

3

- The HACT Manager should document the discussion and adjust the Agency Assurance Plan as necessary based on the discussion of the above considerations. Any significant deviances from the guidance on assurance activities required per risk rating should be discussed with agency HQ.
- Actions required to support the execution of the Agency Assurance Plan should be documented and assigned. These actions may include:
  - Solicitation of an audit firm (for training of United Nations staff and/or spot check and audit services); and
  - Training plan for United Nations staff.

4

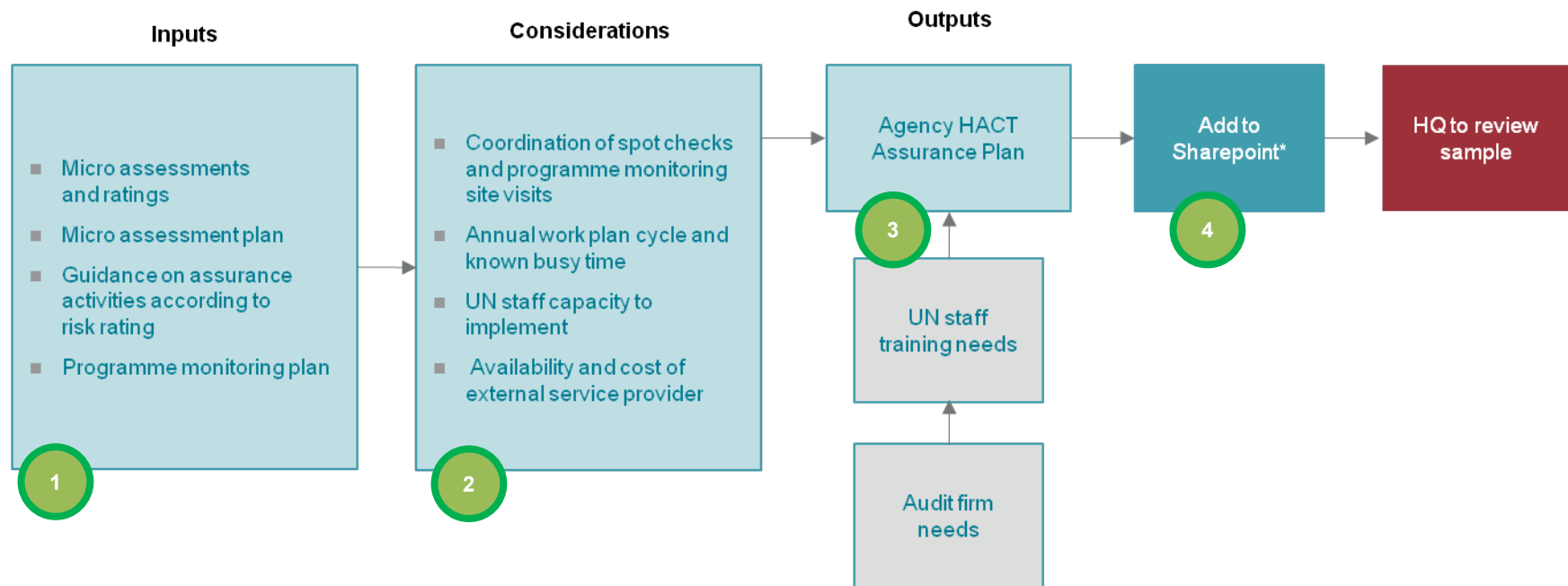
- The Agency Assurance Plan should be uploaded to SharePoint<sup>7</sup> if existing agency specific database are not sufficient to track the various components of the HACT framework. Agency HQ Focal Points should review a sample of plans to help ensure they have been developed in accordance with HACT guidance.

---

<sup>7</sup> Or alternative mechanism to allow for sharing with agency HQ and between agencies as needed.



Figure 4: HACT Assurance Planning Process



*\*If Sharepoint has not been developed information should be provided to the Inter-Agency Coordinator for retention.*

### Roles and Responsibilities

- *Agency Country Representatives are accountable for the development and approval of Agency Assurance Plans for their office.* The HACT Manager will manage the development of the plan and involvement of relevant parties.
- *Programmatic staff should be involved as a key contributor in the assurance planning process.* Programmatic staff have significant insights into the operations of implementing partners and their perspectives should be used to provide input on the planned number of spot check/monitoring activities.

### Tools

- *The revised framework should include a standardize template for the Agency Assurance Plan.*

The suggested tools to support this process are as follows:

| Tool                           | Location   |
|--------------------------------|------------|
| Agency Assurance Plan Template | Appendix 6 |

## 4.6 Implementation of Assurance Activities

### Barriers Identified

- Limited guidance in the framework on assurance activity thresholds, frequency and sample sizes, increases the risk of inconsistent application at the country level and potentially diminished assurance.
- Assurance activities, results and subsequent actions are not adequately documented and it is not evident how results are used by management in decision-making.
- Agency departures from assurance activities provided by the framework contribute to inconsistent application, lack of country team understanding of the appropriate use of these activities, and in certain cases additional unnecessary activities.

### Proposed Revisions

#### Purpose

The purpose of assurance activities is to determine whether the funds transferred were used by the implementing partners for the appropriate purpose, and in accordance with the stipulated procedures. Without appropriate completion of the assurance activities, HACT only serves as a risk assessment rather than a risk management and mitigation process.

For HACT to provide the appropriate levels of assurance to United Nations management, it relies on a "dynamic" or "continuous feedback" approach, which includes the development of a comprehensive Agency Assurance Plan which has considered:

- Timely execution of assurance activities;
- Updates to planned assurance activities based on the results; and
- Monitoring of implementation progress by management at country and headquarter levels.

#### Scope

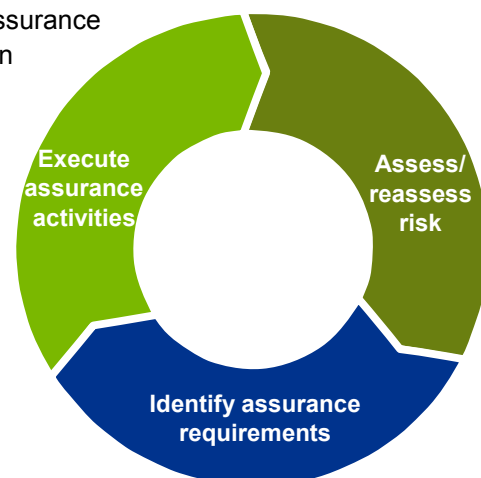
There are two key themes to strengthening the framework with respect to assurance activities overall. These two themes apply to both the level of implementation and oversight at both HQ and country levels.

#### 1) Ensuring a continuous feedback loop:

Assurance activities should be planned based on an assessment of risk; the results of planned assurance activities should be used to reassess whether the risk assessment has changed—and whether risk ratings, cash transfer modalities and planned assurance activities should be modified based on these results.

#### 2) Documentation of activities and feedback:

Assurance activities, results and subsequent actions are currently not adequately documented and it is not evident how results are used by management in decision-making. A key theme to the proposed revisions to assurance activities is the adequate documentation of activities, results and how results are used to inform risk and management decisions on an ongoing basis.



### Process

The process for implementing the Agency Assurance Plan is illustrated in figure 5 and described below:

1

- Agency Assurance Plan sets out the required assurance activities for each IP. Agencies implement activities against the plan, including use of external service providers as necessary.

2

- After each planned activity is performed, results of the activity, and any proposed corrective actions agreed to by the IP, should be considered by the HACT Manager and other United Nations staff (programme/finance). Specifically, agencies should consider any necessary changes to:
  - Programme implementation and the AWP;
  - Mode of implementation (direct vs. national);
  - IP risk rating;
  - CTM; and
  - Planned assurance activities going forward.

3

- A decision tree to illustrate the considerations to be taken by the agency upon identification of any issues or concerns is provided in Figure 6.
- The results of the assurance activity, any corrective actions proposed by the IP, and the considered impact on planned assurance activities going forward should be documented by the country office. Agencies should develop guidance to assist country offices assess any negative findings and appropriate actions necessary to resolve.
- Evidence of these considerations should be monitored on an ongoing basis by the country office and on a sample basis by HQ, to provide comfort to United Nations management that HACT assurance activities are being implemented in accordance with the framework.

Figure 5: Implementing HACT Assurance Activities

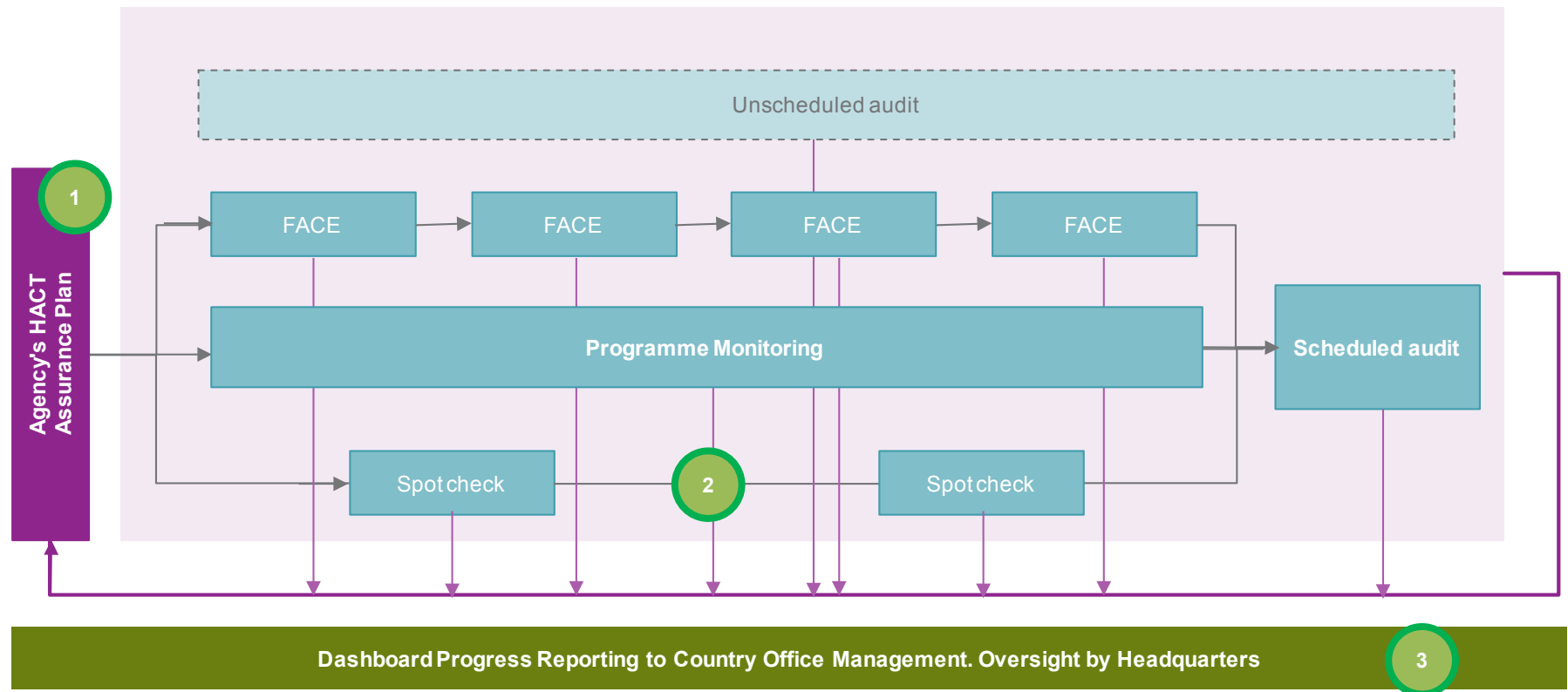
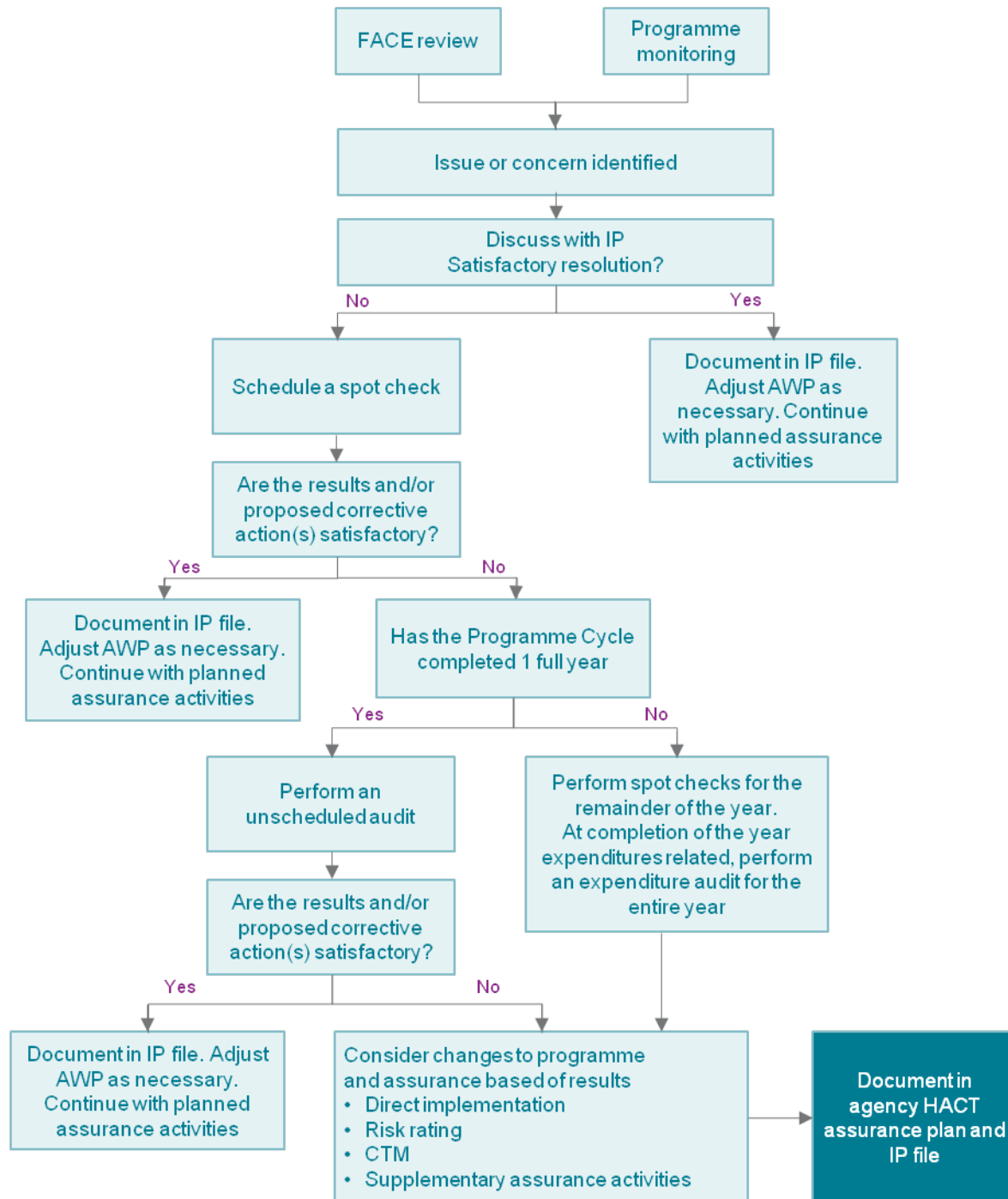


Figure 6: Issue Identification



### Roles and Responsibilities

- The HACT Manager is responsible for maintaining an up to date Agency Assurance Plan for his/her agency
- The HACT Manager is responsible for ensuring the agency's review of assurance results is documented and the impact on planned assurance activities and/or the AWP is considered
- *The HACT Manager should report on progress against the Agency Assurance Plan (dashboard progress reporting) to the Country Representative and/or executive management team of the country office (including both programme and finance/operational heads at the country office)*
- *Agency HQ Focal Points should review a sample of Agency Assurance Plans and compare to dashboard reports to obtain comfort that country offices are implementing the HACT framework against their plan in a timely manner.*
- *Agency HQ Focal Points should also review a sample of assurance activity deliverables/outputs to consider whether country offices are appropriately documenting the decisions made on the basis of these activities and making changes to programme and assurance plans accordingly.*

### Shared Implementation Partners

For shared implementing partners, the lead agency should ensure that other agencies have opportunity to contribute to the determination of scope of assurance activities and are involved in discussions to review the results, corrective actions, capacity development requirements and/or changes to planned assurance activities going forward.

### Tools

- *The Agency Assurance Plan should be supported by a live document that tracks real time implementation of planned assurance activities and progress against the agency's assurance plan ("dashboard"). It should be possible to obtain an up to date copy, at any point in the programme cycle, of assurance activities planned and implemented and any significant adjustments to the plan.*

The suggested tools to support this process are as follows:

| Tool                           | Location   |
|--------------------------------|------------|
| Agency Assurance Plan Template | Appendix 6 |
| Assurance Monitoring Dashboard | Appendix 7 |

## 4.7 Spot checks

### Barriers Identified

- Framework is unclear whether spot checks should be performed by an external service provider or internal agency staff.
- Agencies may not have the appropriate capabilities to perform spot checks and outsourcing is an additional, and sometimes, unrealistic cost.
- Countries with a large number of implementing partners can feel overwhelmed with the number of spot checks that should be conducted.
- The purpose of spot checks is not fully understood by the country offices and is not prioritized.

### Proposed Revisions

#### Purpose

The purpose of spot checks is to assess the internal controls, relative to the accuracy of the financial records for cash transfers to the IP from the UN, and perform procedures substantive in nature on a sample of expenditures.

Spot checks are used during the course of a programme cycle and the frequency of spot checks is determined by the IP risk rating. Spot checks can be performed by United Nations staff or external service providers, accordingly to local United Nations office capacity. If performed by an external service provider, the results and items selected for testing during a spot check may potentially be utilized for subsequent audit(s) within the programme cycle if performed by and deemed appropriate by the same external service provider. This should be discussed and agreed upon at the start of the engagement.

#### Scope

The spot check is not an audit: it consists of performing procedures, which include:

- Inquiries related to the IP's internal controls with respect to financial management, procurement and/or other controls required to appropriately implement the activities defined in the AWP (or agency equivalent); and
- Review of expenditures to confirm that documentation supports the expenditures and the expenditures are in accordance with the AWP (or agency equivalent) and other United Nations regulations.

Spot checks are project based (i.e. for an IP implementing multiple projects, a spot check should be performed over FACE form(s) for each projects the IP implements, unless otherwise documented by the agency). This is because the scope of projects, and therefore the controls that are being relied on, may vary by project. For example, some projects may rely on the IP's procurement controls, and others may rely on human resource management controls.

For moderate and low risk IPs, it can be the agency's discretion to implement a reduced number of spot checks, particularly where projects are similar in nature and relying on the same internal controls. The spot check in this instance would become IP based, rather than project based.



Where multiple spot checks are performed over an IP by more than one agency, these should be coordinated to reduce the burden on the IP and potentially be more cost efficient for the United Nations. Spot checks can be performed by external service providers or qualified internal agency staff (refer to Appendix 8 for examples of these qualifications). The output of the spot check is a 'Spot Check Workplan' detailing results of procedures performed. If the spot check was performed by external service providers, a report in accordance with International Standards on Related Services (ISRS) 4400, *Agreed-upon Procedures Regarding Financial Information* will be provided regarding financial procedures performed regarding FACE forms selected for testing in addition to the 'Spot Check Workplan' (noting the quantification of findings and funding agency as appropriate).

### Process

The process for performing a spot check is illustrated in figure 7 and described below:

1

- Per the suggested guidance in Section 4.5, the frequency of the spot check is based on the risk rating determined through the micro assessment.

2

- Where an external service provider is used, they should be scheduled based on United Nations and agency procurement and contracting requirements.
- Where an internal agency staff is utilized, the agency should ensure staff has appropriate qualifications (see Appendix 8 for details).

3

- Where an external service provider is used, the agency should review the results of the spot check and ensure it understands the results. The agency should consider the results against the micro assessment and other assurance activities, such as programme monitoring.
- The agency should determine whether the spot check results, in conjunction with other assurance activities, represent any potential change in risk to working with the IP.
- The external service provider (as applicable), IP staff and agency staff should meet to discuss the findings of the spot check and any planned corrective actions that the IP might intend to take as a result of the spot check. Agencies should develop guidance to assist country offices assess any negative findings and appropriate actions necessary to resolve.
- Taking into account any planned corrective or mitigating actions, the agency should consider whether the results of the spot check are satisfactory or whether potential issues, risks or concerns have been identified which may warrant an unscheduled audit or other change to planned assurance activities. The agency should also consider any impact on the activities planned in the AWP (or agency equivalent).



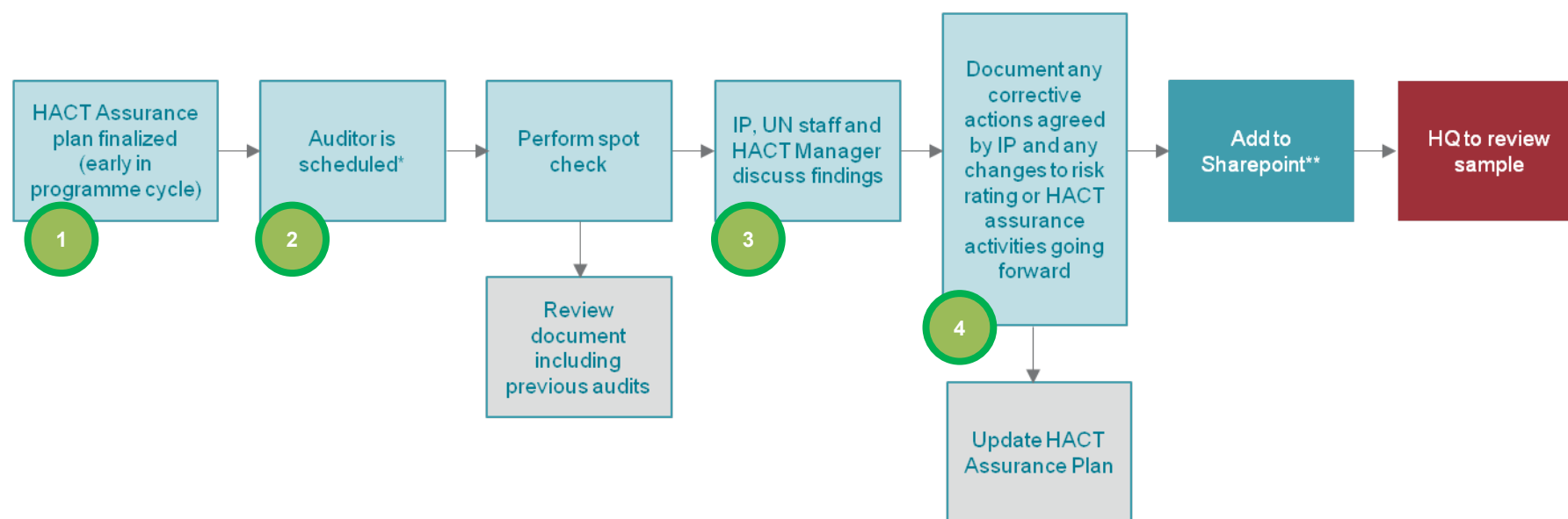
- The agency should document the results of its analysis and the decisions made as a result of the spot check. This analysis should be attached to the spot check documentation and uploaded to SharePoint. Agency HQ Focal Points should review a sample of spot checks, based on agency discretion, to determine whether country offices are:
  - Implementing on a timely basis, and in accordance with the agency HACT assurance plan; and
  - Appropriately reviewing, understanding and refining planned assurance activities.
- The review by Agency HQ Focal Points is an important step in providing comfort to HQ leadership and other stakeholders, such as United Nations internal and external auditors, that the HACT framework is being implemented appropriately and therefore providing the appropriate level of assurance over cash transfers.

Refer to Figure 6 above that provides a decision tree for potential issues and corrective actions.

When spot checks are performed by external service providers a “Management Letter” providing details of spot check findings and their impact to internal controls, external service provider recommendations, and IP management responses can be requested by agencies as a supplemental deliverable to the spot check report. A “Management Letter” is not intended to be a “stand alone” engagement and should accompany an engagement that provides a report (e.g. audit report or agreed-upon procedures). *The “Management Letter” should be prepared in accordance with Institute of Internal Auditors’ International Professional Practices Framework (IPPF).*

A “Management Letter”, is an additional deliverable and cost to the United Nations. With sufficient internal United Nations capacity at the country office level, this additional deliverable may not be required, as United Nations staff will be able to appropriately understand the issues identified in the spot check report, and the external service provider should be expected to meet with the United Nations to clearly explain these. Thus in the longer term, with adequate United Nations capacity, a “Management Letter” should not be necessary.

Figure 7: Spot Check Process Flow



\* Auditor is scheduled if internal Agency staff do not possess the appropriate qualifications to perform spot checks.

\*\* Or alternative mechanism to allow for sharing with agency HQ and between agencies as necessary.

### Shared Implementation Partners

For shared implementing partners, one spot check should be performed, by qualified external service providers or by the lead agency with the appropriate internal capacity. The scope of the spot check should include a review of at least 60% of expenditures reported on the number of FACE form selected per agency (i.e. 1 FACE form per year for a low risk partner). For example, for a low risk IP funded by both UNFPA and UNICEF, the spot check would include:

- Inquiries with respect to the IP's internal controls related to the scope of services in the AWP (i.e. not limited to financial management but may include procurement, asset management etc.);
- Review of at least 60% of expenditures reported on one Agency 1 FACE form, against the Agency 1 AWP (or agency equivalent) and agency requirements; and
- Review of at least 60% of expenditures reported on one Agency 2 FACE form, against the Agency 2 AWP (or agency equivalent) and agency requirements.

The requirements provided below are consistent with KPMG's recommendations provided in Section 4.5 Assurance Planning.

### Roles and Responsibilities

- In keeping with earlier clarifications, overall accountability for ensuring that spot checks are completed as planned lies with the agency Country Representative.
- *The HACT Manager should be responsible for overseeing the spot check process including:*
  - Procurement of the external service provider or confirming availability of internal United Nations resources with suitable skills to perform the spot check;
  - Coordination with the IP;
  - Coordination with appropriate United Nations staff (programme and financial/operations) as well as other agencies for shared implementing partners;
  - Documenting the analysis of spot check results, discussions with IP and any necessary changes to the assurance plan, or AWP; and
  - Record maintenance including sharing spot check report and United Nations actions on SharePoint for HQ review.

### Tools

- *Agencies should adopt consistent Terms of Reference for spot checks (one for spot checks performed by external service providers and one for spot checks performed by internal agency staff) which can be utilized for separate or shared audit activities.* These Terms of Reference should be readily available for use by country offices and include an appendix to be updated for implementing partner specific information. This process will provide consistency in global spot check processes, a better understanding within the United Nations and with implementing partners regarding the spot check procedures, and assist with shared coordination among agencies with shared IPs.

The suggested tools to support this process are as follows:

| Tool                                                                                                                                                       | Location    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Terms of Reference for Spot Check Agreed Upon Procedures performed by internal agency staff                                                                | Appendix 8  |
| Spot Check Workplan performed by internal agency staff                                                                                                     | Appendix 8  |
| Terms of Reference for Spot Check Agreed Upon Procedures performed by external service provider                                                            | Appendix 9  |
| Report template for Spot Check Agreed Upon Procedures performed by external service provider                                                               | Appendix 9  |
| Spot Check Workplan performed by external service provider                                                                                                 | Appendix 9  |
| Terms of Reference for Management Letter prepared in accordance with Institute of Internal Auditors' International Professional Practices Framework (IPPF) | Appendix 10 |

### Transition Considerations

- Agencies will need to consider the internal capacity, skills and available time of country office staff to perform spot checks for IPs. This will require consideration of the total volume of IPs and the corresponding risk ratings, which drive the frequency of spot checks.
- Agencies will need to determine whether to use internal resources or external service provider to perform spot checks. There are advantages and disadvantages to either:
  - Use of an external service provider can help ensure the necessary capabilities and quality of spot check reviews. There is potential for cost efficiencies in using LTAs for both spot check and audit services;
  - Recognizing the reality that the majority of project expenditures happen in the last two quarters, spot checks will most likely be scheduled in Q4 or Q1 of the subsequent year. These are typically the busiest times for country offices, so use of an external service provider may relieve some of that pressure. However, agencies should use discretion to determine the appropriate period to be selected for spot check procedures;
  - Even when using an external service provider to fill capacity gaps, United Nations staff will be expected to have sufficient understanding of the results of spot checks and other HACT assurance activities in order to adjust AWP activities and Agency Assurance Plans accordingly and understand whether corrective actions proposed by the IP are appropriate and have been implemented; and
  - As a general consideration, the United Nations should seek to coordinate programme monitoring activities with spot checks to help minimize the overall burden on IPs.

## 4.8 Programme Monitoring

### Barriers Identified

- HACT is viewed solely as a separate framework focusing on financial mechanisms, rather than its potential as a supportive reference point for more effective programme management. This has been discussed earlier in this report.
- Programme staff are not being involved or consulted in HACT processes to share knowledge and experiences with implemented programmes.

### Proposed Revisions

#### Purpose

Programme monitoring is considered an element of the HACT assurance framework. Programme monitoring is performed per agency guidelines and provides evidence regarding the state of programme implementation.

#### Process

- *Programme staff should be involved in reviewing assessments and assurance activities performed by external service providers and internal United Nations staff (if applicable) to ensure results are consistent with their understanding of the implementing partner and programme.*
- *Programme staff may wish to expand programme monitoring activities to include limited financial procedures during scheduled site visits; this may assist with capacity and provide limited assurance related to the implemented programme.*

### Shared Implementation Partners

For shared implementing partners, it does not appear that shared activities could be efficiently or effectively performed due to variances in agency specific guidelines and the significant effort that would be required for coordination among the agencies.

### Roles and Responsibilities

- *Programme staff should notify the HACT Agency Manager and HACT Inter-Agency Coordinator of any issues or risks identified through programme monitoring that could have an impact on the implementing partners risk rating and planned assurance activities.*

## 4.9 Scheduled Audits

### Barriers Identified

- Perception that the HACT scheduled audit, which focuses on a review of internal controls and sample of expenditure testing, provides less or insufficient assurance compared to a financial audit.

### Proposed Revisions

#### Purpose

An audit is used to determine whether the funds transferred to implementing partners were used for the appropriate purpose and in accordance with the stipulated procedures. This determination can be made in different ways, and through different audit products, which provide varying degrees of assurance, based on different international audit standards, deliverable formats and restrictions of use.

The original HACT framework was based on an audit of internal controls, which, alongside the other HACT tools such as spot checks and programme monitoring, provided a risk-based assurance framework that is able to reduce the burden of audit and oversight on lower risk partners and create an environment which encourages and promotes capacity development of IPs.

The recent joint audit of governance arrangements for HACT stated: “Conceptually, the combination of the three assurance mechanisms-scheduled audits, spot checks and programmatic assurance-could provide adequate assurance as to whether the funds transferred were used for the appropriate purpose, and in accordance with the stipulated procedures”.<sup>8</sup>

Within the audit industry, most public sector organizations now utilize risk based approaches to audit and assurance. HACT is also consistent with wider United Nations resolutions and initiatives towards national ownership and delivering as one United Nations system.

#### Scope

The Agencies that are currently implementing HACT have differing audit models and expectations. The NIM and NEX audit used by UNDP and UNFPA is a substantive, financial based audit, whereas UNICEF implements the internal control based HACT audit. The different features of these models, and comparison with the features of the original HACT audit, are summarized in Appendix 11. This has been a significant factor in the low implementation of HACT to date, as some agencies and/or country offices were unclear on whether the HACT audit provided sufficient assurance.

In order to reconcile the requirements of all agencies, *the revised framework proposes an additional audit option, similar to the NIM/NEX audit, to be used as an alternative to the internal control audit, under specific circumstances. However, the framework should be clarified to state that under the HACT model, assurance is primarily provided through the combination of spot checks, programme monitoring and internal control audits.* In the longer term, as agencies and country offices become more experienced with implementing HACT, the substantive, financial audit option should be retired so that all audits are internal control based, allowing the full objectives and benefits of HACT to be realized.

---

<sup>8</sup> Joint Audit of Governance Arrangements for the Harmonized Approach to Cash Transfer (HACT), UNDP Office of Audit and Investigations and UNFPA Division of Oversight Services, November 2012, paragraph 69

## 4.9 Scheduled Audits (continued)

*In the revised framework only one of the audit options, financial or internal control, if applicable is required to be performed for an implementing partner.* The application of both of these forms of audits would not be efficient or appropriate.

A summary of the two audit options is provided below:

| Audit Product              | Financial Audit                                                                                                                                                                                                                                                                                           | Internal Control Audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Level of Assurance</b>  | Audit                                                                                                                                                                                                                                                                                                     | Limited to factual findings, no assurance is expressed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Engagement Scope</b>    | An audit of the expenditure statement, and statement of assets and equipment and cash position (the financial statement) for a specified period prepared by management using the prescribed basis of accounting                                                                                           | Limited to the procedures agreed upon by the external service provider or SAI ("auditor") and engaging party(ies) and may include:<br>procedures to evaluate the operation of internal controls. These will be the internal controls required to effectively implement the IP's scope of work such as financial management, procurement, recruitment, asset management. These are the controls that would have been the focus of the micro assessment, and;<br>Procedures to evaluate a sample of expenditures for compliance with specified policies |
| <b>Report</b>              | An opinion on the financial/expenditure statement; whether the statement presents fairly, in all material respects for a specified period, the expenditures, assets and equipment and cash position (as applicable) in accordance with the prescribed basis of accounting. This report is may be modified | A report on an agreed-upon procedures engagement which describes the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed. A report of factual findings                                                                                                                                                                                                                                                                                   |
| <b>Report Restrictions</b> | Limited to the engaging parties                                                                                                                                                                                                                                                                           | Limited to the engaging parties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Reporting Standards</b> | International Standards on Auditing (ISA) 805 or International Standards of Supreme Audit Institutions "ISSAI"                                                                                                                                                                                            | International Standards on Related Services (ISRS) 4400 or ISSAI                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

The recommendation for use of ISA 805 *Special Considerations-Audits of Single Financial Statement and Specific Elements, Accounts or Items of a Financial Statement for financial statement audits* is based on our understanding of the scope of audits related to a statement of expenditures (e.g. Combined Delivery Report (CDR)). This standard appears to be more appropriate than the current use by certain agencies of ISA 700 *Forming an Opinion and Reporting on Financial Statements*, which specifically defines the applicability of 'financial statements' as a 'complete set of general purpose financial statements, including the related notes' which are not prepared or applicable to implementing partners.



A “Management Letter” providing details of audit (financial or internal control) findings, external auditor recommendations, and IP management responses can be requested by the agencies as a supplemental deliverable to the audit report. A “Management Letter” is not intended to be a “stand alone” engagement and should accompany an engagement that provided a report (e.g. audit report and agreed-upon procedures). *The “Management Letter” should be prepared in accordance with Institute of Internal Auditors’ International Professional Practices Framework (IPPF).*

A “Management Letter”, is an additional deliverable and cost to the United Nations. With sufficient internal United Nations capacity at the country office level, this additional deliverable may not be required, as United Nations staff will be able to appropriately understand the issues identified in the audit report. Thus in the longer term, with adequate United Nations capacity, not requiring a “Management Letter” could potentially represent an area of cost savings for the United Nations.

### Process

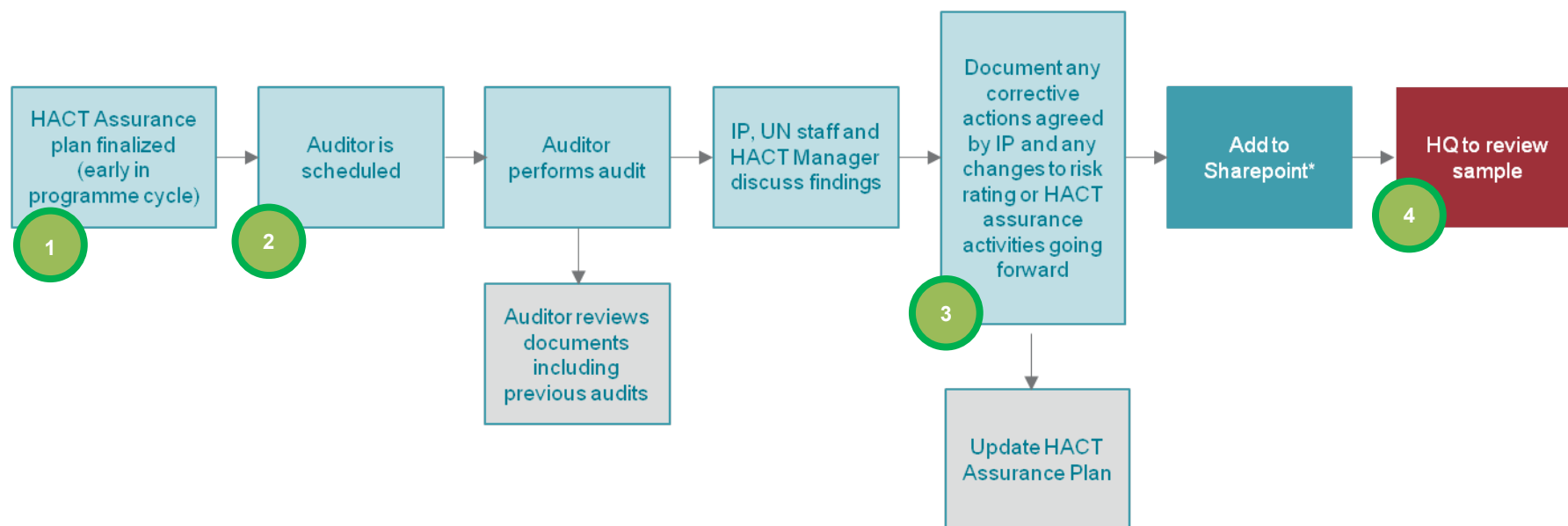
The process for performing a HACT audit is illustrated in figure 8 and described below:

-  ■ Per the suggested guidance in Section 4.5, the type of audit to be performed (internal control vs. financial based) and the frequency of the audit are based on the risk rating determined through the micro assessment. The scope of the audit should reflect the funds transferred by the agency and the implementing partners use and oversight of these funds, not the implementing partner as a whole.
-  – The external service provider should be scheduled based on United Nations and agency procurement and contracting requirements.
-  ■ The agency should ensure review the results of the audit and ensure it understands the results. The agency should consider the results against the micro assessment and other assurance activities such as spot checks and programme monitoring.
  - The agency should determine whether the audit results, in conjunction with other assurance activities, represent any potential change in risk to working with the IP.
  - The external service provider, IP staff and agency staff should meet to discuss the findings of the audit and any planned corrective actions that the IP might intend to take as a result of the audit. Agencies should develop guidance to assist country offices assess any negative findings and appropriate actions necessary to resolve.
  - Taking into account any planned corrective or mitigating actions, the agency should consider whether any changes are required to:
    - The IP’s risk rating;
    - The cash transfer modality;
    - Future scheduled assurance activities (e.g. spot checks and programme monitoring);
    - AWP design and planned activities; and
    - Planned capacity development activities (if any).

4

- The agency should document the results of its analysis and the decisions made as a result of the audit. This analysis should be attached to the audit report document and uploaded to SharePoint. Agency HQ Focal Points should review a sample of HACT audits, based on agency discretion, to determine whether country offices are:
  - Implementing on a timely basis, and in accordance with the agency HACT assurance plan; and
  - Appropriately reviewing, understanding and refining planned assurance activities.
- The review by the Agency HQ Focal Point is an important step in providing comfort to HQ leadership and other stakeholders, such as United Nations internal and external auditors, that the HACT framework is being implemented appropriately and therefore providing the appropriate level of assurance over cash transfers.

Figure 8: Scheduled Audit Process Flow



*\*Or alternative mechanism to allow for sharing with agency HQ and between agencies as necessary.*

### Shared Implementation Partners

For shared implementing partners, agencies will need to determine the most appropriate audit option. This determination should consider the relative size of funding being provided to the IP by each agency (relative to each agency's overall country programme budget) so that all agencies can be satisfied that the planned audit will meet their requirements.

An internal controls audit, rather than financial audit, allows the audit to be relied upon by other agencies who share the same implementing partner, and for this reason, an internal controls audit is the preferred audit option for shared IPs. Agencies should provide the auditor with information regarding total funding provided by each agency to the IP in order that the expenditure testing portion of the audit can be based on an appropriately pro-rated sample. The audit report should also identify which findings relate to which agency's funds, as appropriate.

Where a financial audit is performed, separate opinions should be provided for each agency's funding. The audit report should clearly state the projects and expenditures of each agency.

### Roles and Responsibilities

- In keeping with earlier clarifications, overall accountability for ensuring that audits are completed as planned lies with the agency country representative.
- *The HACT Manager should be responsible for managing the audit process including:*
  - Procurement of the auditor;
  - Coordination with the IP;
  - Coordination with appropriate United Nations staff (programme and financial/operations) as well as other agencies for shared implementing partners;
  - Documenting the analysis of audit results, discussions with IP and any necessary changes to the assurance plan, risk rating, CTM or AWP; and
  - Record maintenance including sharing audit report and United Nations actions on SharePoint for HQ review.

### Tools

- *Agencies should adopt consistent Terms of Reference (TOR) for scheduled audits (both internal control and financial based audits), which can be utilized for separate or shared audit activities.* The various TORs recommended for the revised framework, detailed below, have been prepared utilizing the original HACT framework, existing financial audit TORs (NIM/NEX) provided by the agencies, our understanding of the United Nations environment and assurance needs of the various agencies. These documents do not differ significantly from those currently being utilized by the various agencies; however explicitly provide the applicable standards to be utilized by the external service provider and an example of the corresponding report. These documents should greatly enhance the consistency of applicable standards applied and desired level of assurance. The current TORs provide for interpretation of the applicable standard to be utilized and variations on the scope and type of report that is received by the agencies. Through review of prior completed NIM/NEX and HACT audits provided by the agencies we noted varied applications of standards by external service providers, including some instances where standards applied were not consistent with that requested by the agency.

## 4.9 Scheduled Audits (continued)

- *Terms of Reference should be readily available for use by country offices and include an appendix to be updated for implementing partner specific information.* This will provide consistency in processes, understanding internally and with implementing partners, and assist with shared coordination.

The suggested tools to support this process are as follows:

| Tool                                                                                                                                                                                                                          | Location    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Terms of Reference for Agreed Upon Procedures regarding Implementing Partner's internal controls and sample of FACE forms (audit of internal controls)                                                                        | Appendix 12 |
| Report template for Agreed Upon Procedures regarding Implementing Partner's internal controls and sample of FACE forms (audit of internal controls)                                                                           | Appendix 12 |
| Terms of Reference for Financial Audit Report (financial audit)                                                                                                                                                               | Appendix 13 |
| Report templates for Financial Audit Reports (financial audit): <ul style="list-style-type: none"> <li>■ Unmodified</li> <li>■ Modified – qualified</li> <li>■ Modified – adverse</li> <li>■ Modified – disclaimer</li> </ul> | Appendix 13 |
| Terms of Reference for Management Letter prepared in accordance with Institute of Internal Auditors' International Professional Practices Framework (IPPF)                                                                    | Appendix 10 |

## Transition Considerations

- *In the long term, as implementation of the revised framework is systematically rolled out and required for all programme countries for UNDP, UNFPA and UNICEF, HACT audits will replace existing agency audits such as NIM and NEX.*
- Agencies should use the strengthened governance arrangements of the revised framework to provide a united and consistent message to donors and stakeholders, such as the United Nations Board of Auditors, on the benefits of HACT and the reasons for management's adoption of the framework.

## 4.10 Special Audits

### Barriers Identified

- The use of Special Audits is not fully understood by country offices.

### Proposed Revisions

#### Purpose

Special audits are consistent in scope with “Scheduled Audits” described in section 4.9 above, however are triggered as a result of specific issues and concerns which arise during the programme cycle. Once a country team becomes aware of potential or identified issues and concerns, they engage external service providers to perform the audit. The audit may be either financial or internal control based depending on the nature of the potential or identified issues and concerns. Figure 6 illustrates some of the potential triggers for a special audit.

#### Scope

Special audit should include the period from the last audit, scheduled or unscheduled, through the period that the potential or identified issues and concerns related.

#### Process/Shared Implementation Partners/Roles and Responsibilities/Tools

Consistent with that provided in section 4.9 above related to “Scheduled Audits”.

## 5.0 HACT Oversight and Monitoring

# 5.1 Oversight and Monitoring of HACT Implementation

## Barriers

- Need to better define the monitoring requirements at Headquarter and country levels, and documentation of monitoring activities, is one of key factors in implementation issues.

## Proposed Revisions

Monitoring and verification of HACT implementation, and in particular the execution, quality and appropriateness of assurance activities, is fundamental to HACT being able to serve the United Nations as a risk based approach to appropriately utilizing cash transfer mechanisms to fund its implementing partners. This is consistent with the following statement from the *Joint Audit of the Governance Arrangements for the Harmonized Approach to Cash Transfers (HACT)* (issued 09 November 2012):

‘Conceptually, the combination of the three assurance mechanisms-scheduled audits, spot checks and programmatic assurance-could provide adequate assurance as to whether the funds transferred were used for the appropriate purpose, and in accordance with the stipulated procedures. However, the mechanisms as presented in the Framework, fail to provide assurance as to whether the funds transferred were used for the appropriate purpose, and in accordance with the stipulated procedures.’

The United Nations Board of Auditors and agency Internal Auditors have expressed concern with the oversight and monitoring of the existing framework and the proposed revisions, including oversight and monitoring mechanisms, should be discussed with them to ensure that all parties have a consistent understanding and agreement of the revised framework. This will further assist with the transitions and integration of the revised framework.

## Purpose

- *We recommend that agencies increase their monitoring and oversight activities by reviewing samples of assurance documentation, based on agency discretion, to determine whether:*
  - Risk assessments have been properly performed;
  - Risk ratings have been appropriately assigned for implementing partners. Given that micro-assessments are conducted by various parties across the globe, the Agency HQ Focal Points provide oversight to determine whether ratings are applied consistently across countries;
  - The selection of cash transfer modalities and the number/type of assurance activities are commensurate with the risk rating and consistent across implementing partners;
  - Agency Assurance plans are complete and planned assurance levels are commensurate with risk levels assigned to implementing partners;
  - Planned assurance activities were executed, documented and demonstrate appropriate quality expectations; and
  - There is evidence that the results of assurance activities are used to consider any changes to future planned assurance activities.



## 5.1 Oversight and Monitoring of HACT Implementation (continued)

- Results of assurance monitoring activities should be shared widely across all implementers of HACT, including 'lessons learned' and common weaknesses for other agency country offices to be aware of.

### Roles and Responsibilities

#### Country Level Monitoring

##### Agency Monitoring

- The Agency HACT Manager should be responsible for monitoring assurance activities to confirm that its agency is complying with HACT framework requirements.

##### Inter-Agency Monitoring

- The HACT Inter-Agency Coordinator should be responsible for monitoring assurance activities to determine whether these are being applied consistently across each agency that is implementing HACT in that country.
- The HACT Inter-Agency Coordinator is also responsible for monitoring shared assurance activities, if applicable, to determine whether these are being implemented accordingly to the HACT framework requirements.

#### Headquarter Level Monitoring

##### Agency Monitoring

- The HACT Agency HQ Focal Points should be responsible for monitoring assurance activities performed at the country level to confirm that its agency is complying with HACT framework requirements. A forum could be developed to provide the HACT Agency HQ Focal Points from participating agencies a mechanism to share information, best practices, challenges, etc.
- Issues identified should be communicated to agency Comptrollers and shared with the HACT Advisory Committee as necessary to share lessons learned and discuss any impact on the existing framework and guidance for HACT.

#### Tools

- Those responsible for monitoring assurance activities at country and HQ levels should prepare a monitoring plan which defines the sample, resources available to perform monitoring activities, and schedule for performing monitoring activities. It should also define how identified issues will be shared with those being reviewed and how any common issues are escalated to ensure that other implementers of HACT can benefit from the lessons learned.

### Additional Considerations

- HQ level monitoring activities could be outsourced, per agency or for all agencies, if there is not sufficient capacity internally to appropriately fulfil monitoring obligations. A central vendor would be able to assess consistency in implementation across multiple levels – across countries, regions, and agencies.

## 5.2 HACT Implementation Tracking and Results

### Barriers

- Lack of common compliance criteria: agencies have own compliance criteria in addition to framework criteria which is contrary to a harmonized approach
- Compliance criteria is output rather than results based and aimed at shared, rather than individual agency, implementation of HACT
- Compliance unit of measure is unclear—is the country or agency, or both, considered compliant?

### Proposed Revisions

The existing HACT framework, included compliance criteria established by the Advisory Committee focused on whether assessments have been completed and an assurance plan has been developed, rather than whether the planned activities are appropriate and being implemented according to that plan. The concept of compliance criteria also contributed to the view that the HACT framework was an additional framework and set of requirements outside of the day to day operation of programmes that could be elected as applicable or not. This view is contrary to the principles of the framework, which aimed to shift from a control based programming approach to a broader and integrated risk based approach. In addition, these criteria appear to be focused on shared, rather than agency specific, implementation of HACT.

We also noted that certain agencies added compliance criteria to those developed by the HACT Advisory Committee, which created variances between compliance reporting across the agencies and inter-agencies (by UNDOCO). *It is recommended that the agencies use common criteria to ensure proper implementation, oversight and reporting of the revised framework.* The proposed revisions in this report incorporate some of the additional criteria that were previously added by certain agencies.

*The suggested revisions herein propose to establish metrics for tracking the implementation status of the revised framework. It may take a number of years for agencies to fully transition to the revised framework. Once HACT is considered to be fully implemented, the focus should shift from implementation tracking to performance based reporting.*



## HACT Implementation Tracking and Reporting

The revised metrics for tracking the implementation status of HACT (formerly compliance criteria) focuses on whether the country office is compliant with implementing the various components of the HACT framework for implementing partners. The following provides the recommended metrics:

| Implementation Area         | Metric                                                                                                                                                   |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Assessment</b>           | Macro assessment has been completed or high risk has been assumed                                                                                        |
|                             | Micro assessments deemed necessary through the 'Micro Assessment Plan' have been completed or high risk has been assumed                                 |
| <b>Assurance</b>            | Agency Assurance Plan has been completed and implementation is on track. Adjustments to the plan have been documented as necessary and at least annually |
|                             | A joint Agency Assurance Plan has been completed and implementation is on track. Adjustments to the plan have been documented as necessary               |
| <b>Capacity Development</b> | Capacity development has been completed as required and communicated by agency HQ                                                                        |

To underscore that accountability for HACT implementation lies primarily with the agencies, agencies should be assessed, using the metrics provided above, as to whether they have appropriately implemented the HACT framework. Tracking the implementation status of HACT does not consider implementing partners that micro assessment was not deemed necessary (i.e. 'non-assessed implementing partners') as discussed in Section 4.2 Micro Assessment Planning.

## Implementation Certification

Under the current framework, UNFPA and UNDP require Country Representatives and Resident Coordinators to certify compliance with HACT on an annual basis, and UNDP requires certification from the Resident Coordinator confirming that HACT has been fully implemented by the UNDP country office for the 12 months of the previous fiscal year in lieu of the NGO/NIM audit approach. *Under the revised framework, we recommend that all Country Representatives certify the HACT implementation status annually*, at least during transition and roll-out of the revised framework. These certifications should re-state the implementation metrics and ask the certifier to provide any notes/commentary regarding each metric; for example, where the country office has used an alternative assessment to substitute for the macro assessment, as allowed by the framework, this should be indicated on the certification.

### HACT Performance Tracking and Reporting

The tracking of HACT implementation, as detailed above, will provide agencies with a baseline of information that can then be tracked against to assess the performance of the revised HACT framework in the future. Some examples of performance indicators that can be tracked based on the implementation of the revised framework include:

- Number of implementing partner that had a decrease in risk rating and the basis for these changes;
- Amount of external service providers fees incurred during the programme cycle compared to the previous programme cycle, which can be analyzed in the various components (i.e. assessments, spot checks, scheduled audits) and/or in total; and
- Number of shared activities performed during the programme cycle compared to the previous programme cycle.

## 6.0 HACT Guidance and Tools

## 6.1 HACT Guidance

Through our interviews with country offices, we noted broad consensus for the HACT framework and use of a risk based approach. However, country offices requested further clarification and guidance to assist implementation efforts. A significant factor in improving implementation going forward will be the availability of more guidance and tools. While country offices appreciate a certain level of flexibility within the framework to apply HACT according to the needs of the local context, they did note that in most cases they would prefer more specific and detailed guidance to guide implementation, which, if necessary, they could modify to suit local contexts. *The revised framework should therefore strengthen the guidance provided with respect to HACT implementation, providing further examples and templates by agency where possible.*

The suggested revisions in this document, if accepted by management, will help to enhance the guidance within the framework. In addition, United Nations management should consider developing additional guidance as follows:

### HACT Cost Sharing Guidance

The HACT Advisory Committee should consider supplementing the HACT framework with further guidance on cost sharing of HACT across Agencies.

Areas where costs should be shared include:

- External service provider costs for macro assessment; and
- Costs for joint agency training on HACT.

### Agency Specific Implementation Guidance

The original framework was developed as just that – a framework; to improve consistency and effectiveness of implementation, agencies should develop specific procedural guidance that will assist country teams in executing the specific HACT processes. Agency specific guidance is required as the actual procedures to be performed for HACT will depend on and need to be complementary to agency specific business models, operating contexts and organizational structures. As agencies create their own agency specific policies and procedures regarding HACT, they should ensure that they are consistent with the principles and guidance provided by the revised framework.

These agency specific operating procedures will be similar to existing guidance documents developed by agencies, such as the NEX/NIM manual. *The HACT Advisory Committee should review all agency specific operating procedures for HACT to help ensure that they have appropriately applied the HACT concepts and enable agencies to share best practices in HACT implementation.*

Additionally, *it is recommended that the revised framework include a selection of Frequently Asked Questions related to HACT and clear guidance on appropriate contacts for the various types of HACT related questions.*

### Guidance for Implementing Partners

A number of agencies have developed guidance for implementing partners on working with their agency and in particular, what to expect and what the requirements are related to cash transfers. We recommend that all agencies implementing HACT build on these guidance documents so that there is a standard set of HACT guidance for implementing partners, which can be included in agency specific guides for implementing partners as appropriate.

In particular, the guidance should seek to provide transparency to the purpose, scope and procedures of HACT in order to help provide partners with comfort and clear expectations regarding its use,

## 6.2 HACT Tools

### HACT SharePoint

Data collection and a storage mechanism/process is a critical component in helping to ensure that HACT is implemented effectively and that there can be adequate monitoring and oversight by appropriate parties. Data consolidation is important, as scheduled audits should be determined by the collective cash transfers from the agencies.

If existing agency specific databases do not have the capacity to track the various components of the HACT framework, a HACT SharePoint, or equivalent, forum should be established with a common folder structure and organization in order that HQ can monitor implementation of HACT at the country level. Country offices would have access to their own country documents and HQ teams would have access to all country folders.

Data that should be shared includes:

- Lists of implementing partners;
- Planned and actual cash transfers;
- Transfer modality data;
- Assessment results;
- Micro Assessment Plans; and
- Agency Assurance Plans and assurance results.

Data sharing across agencies should be based on the full population of implementing partners and cash transfers for each agency, not limited to shared implementing partners. The effectiveness of the role of the HACT Inter-Agency Coordinator depends on the availability of agency specific data.

Some agencies have internal systems that provide information and data on HACT implementation that will be important for generating statistics regarding overall agency implementation of HACT. However, it is important that actual documents, rather than just data, be shared across country, regional and Headquarter levels in order that there can be appropriate monitoring and oversight of HACT implementation.

### HACT Implementation Plan and Milestones Document

Each country Working Group and Country Representatives should document its workplan for HACT implementation and key milestones. The HACT Implementation Plan should be a five year plan, running concurrent with the Country Programme Cycle, but may need to be an abridged version if adopting HACT mid-term. Some country offices currently have an Annual Workplan for HACT implementation: the HACT Implementation Plan should be supplemented by an annual breakdown of activities.

The HACT Implementation Plan should include information such as:

- Working Group membership and TOR;
- Planned training on HACT for United Nations agencies;



- Complete listing of implementing partners in the country, including budgeted and actual programme funding;
- Proposed timing of assessments and assurance activities;
- Proposed timing for procurement of external firm to complete assessments and assurance activities; and
- Key milestones include:
  - Finalize annual work plan;
  - Identification of HACT Inter-Agency Coordinator;
  - Procure external service providers to complete assessments and assurance activities;
  - Completion of Macro Assessment;
  - Finalize Micro Assessment Plan; and
  - Finalize Agency Assurance Plan.

### Template Documents

As noted previously, the revised framework should provide further examples and templates where possible. For example, the revised framework should include a template Request for Proposal, contract, and Terms of Reference for procuring external service providers.

Standard templates for spot checks, audits (internal control and financial) and other monitoring reports should contain as standard a section which shows evidence that the appropriate United Nations agency staff has reviewed the report and made a determination on whether planned assurance activities should change as a result of the report findings and if so, what the recommended change is.

## 7.0 Transition to the Revised Framework

## 7.1 Transition to the Revised Framework

Implementing a risk based approach to cash transfers across the United Nations system cannot be done as a ‘big bang’ without significant risks. One of the main barriers to successful implementation of HACT to date is the time taken to get the framework in place, such as procuring the external service providers for assessment and assurance activities, and scheduling micro assessments, for sometimes large numbers of IPs, early enough in the programme cycle to benefit from a risk based approach. There is also apprehension by agencies that their proposed risk based approach will not provide adequate assurance, and without confirmation and confidence in the Agency Assurance Plan, will default to a more controls based approach.

Consequently, agencies should plan for at least a two year transition period for the revised framework, where the processes, people, structures and technology can be established or aligned with a view to full HACT implementation starting at the earliest in 2015. This amount of time is not considered unusual for large scale initiatives such as HACT, which, while having been seen primarily as a financial transactional initiative to date, has a much wider impact on the organizations involved, particularly where those organizations may be resource and capacity constrained to effectively plan, implement and manage the change.

Once the agencies are able to utilize the recommendations from this report to update the original HACT framework and develop agency specific policies and procedures for the implementation of HACT, they may consider executing a ‘Pilot Programme’ prior to implementing the revised HACT framework across the entire agency. This ‘Pilot Programme’ would provide the agencies with an opportunity to test the revised framework in a limited environment and determine further clarifications and revisions necessary. Transition plans may need to be created for agency wide and country level considerations.

The table below illustrates some of the key transitional requirements related to HACT in areas of governance, people, process and technology.

Figure 9: Example Transition Plan

|            |    | Current HACT Implementation                                                                                                                            | HACT Transition Period<br>September 2013 - December 2014                                                                                                                                                                                        | Revised HACT Framework<br>January 2015                                                                                                |
|------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Governance | 1. | Lack of inter-agency governing body                                                                                                                    | 1. Establish HACT accountability authority to an inter-agency governance body                                                                                                                                                                   | 1. HACT framework is supported and governed by an appropriate inter-agency body                                                       |
|            | 2. | Lack of HQ oversight allows for inconsistent and delayed implementation of HACT                                                                        | 2. Agencies should inquire with each programme country team to assess current state HACT implementation, and work with the country office to develop implementation plan to ensure full implementation by January 2015                          | 2. HQ maintains oversight of HACT implementation and has a clear picture of each country office implementation                        |
|            | 3. | HACT is not viewed as a mainstreamed, business practice                                                                                                | 3. Reinforced tone-at-the-top and incorporation of the Revised HACT Framework into standard agency policies and procedures                                                                                                                      | 3. Revised HACT framework is incorporated / mainstreamed into agency policies and procedures                                          |
| Process    | 4. | The risk-based approach provided by the framework is not understood across the agencies                                                                | 4. Revise the HACT framework and develop a training programme for necessary agency members                                                                                                                                                      | 4. Risk-based approach provided in the revised framework is understood and fully implemented                                          |
|            | 5. | Macro and Micro assessments are not performed timely per framework (Implementing Partners are provided cash transfers prior to completing assessments) | 5. Agencies should procure an external firm (i.e. country, regional, or global) to perform assessments timely. The TORs should be standardized across agencies. Agencies should develop prioritized schedules for undertaking micro assessments | 5. Macro and Micro assessments are performed timely per the revised framework                                                         |
|            | 6. | The framework does not provide enough guidance for country offices to consistently implement HACT                                                      | 6. Develop the framework to incorporate standardized revisions, guidance, examples, templates, etc.                                                                                                                                             | 6. The revised framework and supporting tools provides sufficient details for country offices to consistently implement the framework |
|            | 7. | Schedule audit approaches are not consistent across agencies (i.e. substantive vs. internal controls / system based)                                   | 7. Schedule Audit TOR should be standardized and agreed upon with IA for full implementation in January 2015. External firm should be procured.                                                                                                 | 7. Scheduled Audits TORs are standardized and agreed upon with Agency IA                                                              |

|         | Current HACT Implementation                                                                                                 | HACT Transition Period<br>September 2013 - December 2014                                                                                                                             | Revised HACT Framework<br>January 2015                                                                      |
|---------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Process | 8. Assurance activities (Spot Checks, programme monitoring, and scheduled Audits) are not performed timely or per framework | 8. Country offices should develop HACT assurance plans consistent with the revised framework to be approved / monitored by HQ. Additionally, agencies should procure external firms. | 8. Assurance activities are performed timely and per framework                                              |
| Tools   | 9. Lack of mechanism to efficiently and effectively share HACT related information at UNCT level                            | 9. Develop a shared site / system for maintaining and sharing HACT related documents and data                                                                                        | 9. HACT related documents and data are efficiently and effectively shared at the UNCT level                 |
| People  | 10. HACT specific roles and responsibilities are not well defined or applied among the agencies                             | 10. Roles and Responsibilities should be updated to respond to the revised HACT framework (e.g. HACT Focal Point, HACT Inter-Agency Coordinator)                                     | 10. Roles and Responsibilities are appropriately defined and executed to support the implementation of HACT |
|         | 11. Limited capacity at country office level to implement HACT framework                                                    | 11. CO capacity should be assessed with respect to HACT implementation and agencies should plan to address skills gaps through training and/or recruitment                           | 11. COs have internal capacity to appropriately implement HACT framework                                    |

## 7.2 Implementation Plan for the Revised Framework

The revised framework represents an opportunity for UNDG to reconfirm some of the important aspects of HACT that may help strengthen understanding and implementation. We recommend a number of activities to support the transition to the revised framework.

### Communication

UNDG and agency leadership may wish to issue a standard communication to remind and clarify the rationale for adopting HACT and the key changes as part of the revision exercise. This should be an opportunity to remind country offices that HACT is mandatory for UNFPA, UNDP and UNICEF and the expectation that each agency will pursue HACT implementation, irrespective of the number of shared implementing partners or any shared activities.

UNDG and UNDOCO may wish to develop communication materials to support country offices who may have previously determined HACT as not applicable, including those where national partners may have been reluctant to participate. UNDG may consider updating tools such as 'Talking to country partners about HACT'. The revision should be used as an opportunity to revisit any reluctance among national partners to accept HACT as an approach. Regional Director Teams may be able to provide support in discussing HACT with high level government officials.

### Training

Training United Nations staff on the revisions of the framework will be a critical part of transition and again, an opportunity to refresh and reconfirm staff on some of the key elements of HACT, including those that haven't been affected by the revision. Training for United Nations staff on the revised framework should consider:

- Involvement of programme staff and emphasis on their role in assessing and managing risk; and
- Clarification that HACT does not reduce the need for agencies to ensure their fiduciary responsibility for the funds transferred by them to implementing partners (by reducing the number of audits), but uses a range of critical assurance mechanisms throughout the programme cycle.

As part of the initial efforts to launch HACT, UNDG prepared a significant amount of training materials. UNDG should reflect on the effectiveness and feedback on these trainings as it develops an updated training programme to communicate the changes of the revised framework. In particular, UNDG and agency leadership might want to consider creating an online course for potentially all country office staff to take. The use of an online course would help gauge some key metrics in terms of trainings participated in and areas where understanding may require strengthening.

While many country offices may choose to use an external service provider to assist with HACT assurance activities, it should be strongly emphasized through training that United Nations staff is expected to be able to understand the activities being performed and in particular the observations, results and recommendations that result from those activities. It is crucial to the success of HACT that United Nations staff is able to appropriately identify and implement activities that respond to the results identified by external service providers. *United Nations management should consider creating a certification for participants of the training, which may help further emphasize the United Nations commitment to use of the HACT framework.*

## 7.3 Institutionalizing the Revised Framework

One of the main barriers to the successful implementation of the HACT framework to date has been its lack of institutionalization within agencies and the overall United Nations system. Successful implementation of HACT requires consideration of the different aspects of the HACT service delivery or operating model and determination of the appropriate design of each variable. Each of these considerations can impact the efficiency, effectiveness, cost and timeframes associated with HACT.

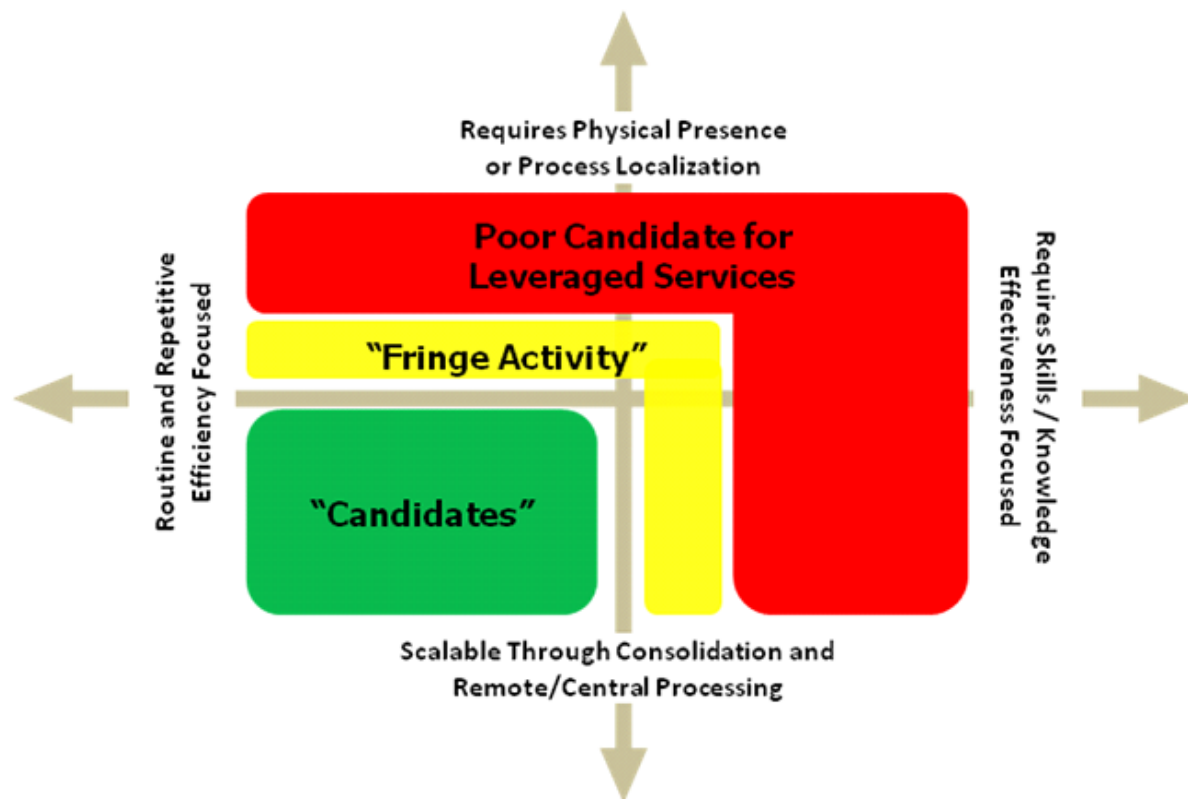
| HACT operating model considerations                                                                                 |                                                                                                                                                                            |                                                                                                          |                                                                               |                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| What works gets done?                                                                                               | How?                                                                                                                                                                       | By whom?                                                                                                 | Where?                                                                        | With what?                                                                                                                                        |
| <ul style="list-style-type: none"> <li>■ Function</li> <li>■ Process</li> <li>■ Activity</li> <li>■ Task</li> </ul> | <ul style="list-style-type: none"> <li>■ Distributed</li> <li>■ Centralized</li> <li>■ Consolidated</li> <li>■ Centres of Excellence</li> <li>■ Shared services</li> </ul> | <ul style="list-style-type: none"> <li>■ Insourced</li> <li>■ Outsourced</li> <li>■ Cosourced</li> </ul> | <ul style="list-style-type: none"> <li>■ Geographic considerations</li> </ul> | <ul style="list-style-type: none"> <li>■ Governance</li> <li>■ Organization</li> <li>■ Technology</li> <li>■ Policy</li> <li>■ Process</li> </ul> |

HACT processes are implemented on a significant scale involving, to various degrees, tens of thousands of United Nations employees, implementing partners and external service providers. *The HACT Advisory Committee may wish to explore alternative service delivery models as a core mechanism to help institutionalize and improve the efficient and effective implementation of HACT.* For example, a strong oversight mechanism at headquarter level helps to ensure consistent and quality implementation at the field level, but requires significant investment in the time and capacity of headquarter level staff. Such a commitment may be better sourced using an external service provider to offer consistent and quality review over implementation activities. Agencies currently use large numbers of audit firms to provide HACT services, including assessments and assurance activities, and there may be potential to leverage significant cost saving reductions through centralized or regional procurements of these vendors.

The proper balance of shared, outsourced and retained services, combined with a common service delivery framework, ongoing competition within the supply chain, sophisticated governance, and standardized performance measures, would significantly improve HACT implementation and create value to the United Nations system beyond cost savings alone. It can increase the timeliness of activities and ensure that limited United Nations resources are assigned more appropriately based on competencies and mission priorities. A transformed HACT function can therefore go beyond supporting the agencies to helping to advance the agencies' mission. To achieve this requires strong governance, communications and change management, without which the value of operating transformation can be 'lost', or at least significantly undermined. *The HACT Advisory Committee should consider building on the revisions to the framework to consider the most appropriate target operating model for HACT that would help improve HACT implementation.*

The following diagram depicts a method for analyzing activities and assessing the most appropriate target operating model:

Figure 10: Example Method of analyzing activities and assessing target operating models





## 7.4 Additional Considerations

As UNDG and the participating agencies use the current opportunity to refine and clarify the HACT framework and enhance implementation of HACT for future periods, we would also like to bring to United Nations management's attention some additional considerations for the longer term implementation of HACT.

- **The evolution of Enterprise Risk Management (ERM) approaches in agencies will impact the HACT framework**

One of the key considerations of this HACT revision engagement was to identify clarifications and revisions to the framework that would remain acceptable to agencies' operating and business models. We noted that participating agencies were at different stages with respect to their approach to enterprise risk management (ERM), or how they view and manage risk across the agency as a whole. This is consistent with the 'Review of Enterprise Risk Management in the United Nations System' report issued by the Joint Inspection Unit in 2010. Going forward, agencies' development of ERM methods and approaches will have an impact on the HACT framework and the framework should be updated as agency ERM evolves.

- **Global contracts with external service providers may increase capacity and deliver cost efficiencies in macro and micro assessments and/or other assurance activities**

Several reviews noted that the ability to procure quality external service providers was a significant factor in the quality of resulting micro assessments. Other feedback noted that country offices were delayed in procuring services for audit and spot checks that had delayed the implementation of those activities. In line with similar recent initiatives, UNDG should consider procuring a global external service provider on a contract that can then be accessed by local country offices. This may help increase the quality of services, and help country offices cope with volume and timeliness of HACT assurance activities. A global LTA will also likely be more cost effective than local procurements and provide consistency in approach and deliverables.

- **An audit tracking system may help increase the effectiveness of HACT assurance activities**

Each Country level HACT Agency Manager and the HACT Inter-Agency Coordinator may benefit from a system to track the results of micro assessments, spot checks, programmatic and financial monitoring activities, and audits. Similar to systems used by internal audit functions to track corrective actions proposed by management, such a system would allow agencies to:

- Document the suggested actions as a result of assurance activities (these may be training, capacity development activities to be undertaken by the United Nations or suggestions to implementing partner management to correct control deficiencies)
- Assign responsibility and milestones for implementing those actions
- Ensure that those who implement subsequent assurance activities are aware of previous results
- Ensure a feedback loop for assurance activities so that results can be acted upon and therefore future assurance activities be modified as necessary to continue to be effective

#### 7.4 Additional Considerations (continued)

While it is noted that the United Nations cannot require implementing partners to implement any corrective actions that are identified and suggested through assurance activities, the United Nations should still track these suggestions in order to help ensure it can modify its future assurance activities with that implementing partner accordingly and maintain institutional knowledge of implementing partners. We understand that NEXAMS and CARDS functionality is currently used by the internal audit functions at UNFPA and UNDP to support HACT compliance monitoring and the potential to share this functionality or provide similar alternatives should be explored to support management with their monitoring responsibilities.

**Appendices – refer to separate document**

## Scope and Limitations

Please be reminded that the conclusions in this correspondence and the accompanying deliverable are based on the facts as stated and on authorities subject to change, retroactively and/or prospectively.

ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY KPMG TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (I) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (II) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

*The advice or other information in this document was prepared for the sole benefit of KPMG's client and may not be relied upon by any other person or organization. KPMG accepts no responsibility or liability in respect of this document to any person or organization other than KPMG's client.*

We make no representation as to the sufficiency or appropriateness of the information included in our deliverable if presented to any third party or for a qualified outside party's purpose(s) ("outside party"). Items of possible interest to any outside parties may not have been addressed. In addition, our deliverable reflects our observations as of the date of this deliverable and does not consider significant events that may have occurred subsequently. Further, a reader should be aware that we are available to answer any questions that may arise with regard to the content of the deliverable.

In consideration of KPMG's allowing an outside party access to our deliverables, we require that the outside party agree that it does not acquire any right as a result of such access that it would not otherwise have had and that KPMG has not assumed any duties or obligations as a result of permitting access that it would not otherwise have had. Additionally, we require that the outside party agree to indemnify and hold harmless KPMG and its personnel from any claim that arises as a result of KPMG's permitting access to its deliverable and that would not exist if such access had not been granted. KPMG shall give prompt notice to the outside party of any claim for which it may seek indemnification under this paragraph. Selection of counsel will be subject to the approval of KPMG, which approval will not be unreasonably withheld.

Finally, we require that the outside parties agree that the use of the information acquired as a result of the review will be limited to any outside party's consideration and for no other purpose. This information shall not be shared with any other party, except in each case, with the written consent of KPMG or pursuant to a subpoena or order issued by a court of competent jurisdiction or by a judicial or administrative or legislative body or committee. The outside party shall give KPMG prompt notice of the receipt of any such subpoena so that KPMG may seek an appropriate protective order.

## Contact us

### **Mark Fitzgerald**

**Principal, International Development Assistance Services (IDAS)**

**T** +1 703 286 6577

**E** [markfitzgerald@kpmg.com](mailto:markfitzgerald@kpmg.com)

### **Glenn Davidson**

**Managing Director, Shared Services & Outsourcing**

**T** +1 703 286 8785

**E** [gdauidson@kpmg.com](mailto:gdauidson@kpmg.com)

### **Lisa Gahan**

**Director, International Development Assistance Services (IDAS)**

**T** +1 212 954 3573

**E** [lisagahan@kpmg.com](mailto:lisagahan@kpmg.com)

### **Audie McRae**

**Senior Associate, International Development Assistance Services (IDAS)**

**T** +1 212 872 3157

**E** [amcrae@kpmg.com](mailto:amcrae@kpmg.com)

**[kpmg.com](http://kpmg.com)**