

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



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**AUDIT**

**OF**

**MANAGING AGENT FUNCTION**

**OF THE SOUTH SUDAN COMMON HUMANITARIAN FUND**

**Report No. 1546**

**Issue Date: 16 October 2015**

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## Report on the Audit of Managing Agent Function of the South Sudan Common Humanitarian Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the Managing Agent function of the South Sudan Common Humanitarian Fund (CHF), which has been entrusted to the UNDP Country Office in South Sudan (the Office) since the inception of the South Sudan CHF in 2012. The audit took place from 1 to 18 June 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the key aspects of the management of NGO implementing partners, namely: (a) funds allocation and disbursements and (b) programmatic, and financial oversight and controls.

The audit covered the activities of the Managing Agent from 1 January 2014 to 30 April 2015. During the audit period, the Managing Agent recorded project expenditures totalling \$80 million. This was the first audit of the Managing Agent function of the South Sudan CHF.

This audit is part of the joint audit of South Sudan CHF approved by the United Nations Representatives of Internal Audit Services. The other parts of the joint audit are: (a) a joint-governance audit to be conducted by the participating United Nations organizations; (b) an Administrative Agent function audit conducted by OAI; and (c) programme and project audits to be conducted separately by the participating United Nations organizations based on their own risk-based planning. A separate report will be issued for each part of the joint audit of South Sudan CHF and a consolidated report will be issued at the conclusion of the joint audit.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means “Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.” This rating was mainly due to the high priority issues noted in funds allocation and disbursements as well as programmatic, financial oversight and controls.

### Key recommendations Total = 3, high priority = 2

The three recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 1); (b) reliability and integrity of financial and operational information (Recommendation 2); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3).

For two high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below.

Lack of processes, metrics and documentation for timeliness of disbursements to NGOs (Issue 1)	As of June 2015 the standard operating procedures establishing the expected processing time frames had not been approved nor had necessary systems/procedures been put in place to consistently document the actual processing times relating to financial activities. The review of 23 NGO-implemented projects indicated long processing time. Without established time
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expectations for processing, there was no way to effectively monitor the processing time, and identify and correct delays.

Recommendation: The Office should finalize its standard operating procedure containing time frames for completing key financial activities, monitor compliance with the established time frames, and address delays in disbursing funds to NGOs.

Lack of system and controls on implementing partner performance and risk assessment (Issue 2)

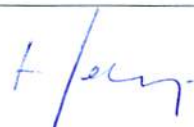
The Office had not developed an assurance plan to more comprehensively review the performance of the implementing partners. The Office reviewed NGO implementing partners' requests for advances and expenditure reports against the approved project budget. However, there was no basis for the Managing Agent to disallow reported expenditures since it did not obtain and review the implementing partner's supporting documentation for the reported expenditures. The Office used only the implementing partners quarterly financial reporting as the basis for recording expenditures and identifying budget variances.

Recommendation: The Office should strengthen funds management by developing and implementing an assurance plan for all NGO implementing partners, consistent with the Harmonized Approach to Cash Transfers framework, which provides for verification of programmatic delivery and review of implementing partner expenditure support documentation based upon assessed risk.

### Management comments and action plan

The Country Director accepted all the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Ostveiten  
Director  
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## **I. About the South Sudan CHF and the Managing Agent function**

The South Sudan CHF was established in February 2012 by the Humanitarian Coordinator for South Sudan, United Nations agencies and donors to support the timely allocation and disbursement of donor resources to the most critical humanitarian needs in South Sudan (the Country). It is a pooled funding mechanism, under the overall authority of the Humanitarian Coordinator, intended to support national and international NGOs and United Nations agencies providing humanitarian assistance to people in need, in a strategic and timely manner. The South Sudan CHF aims to give the Humanitarian Coordinator, in consultation with the CHF Advisory Board, the ability to allocate funds to priority humanitarian needs, encourage early donor contributions and allow rapid response to unforeseen needs.

The Managing Agent function is subordinate to the governing bodies of the South Sudan CHF entrusted to the Office located in Juba. At the time of the audit, the Managing Agent team was comprised of a Programme Specialist, a Finance Specialist, a Finance Analyst, and a Finance Associate, who were primarily responsible for disbursing funds to the contracted NGOs and liquidating advances on the basis of financial reports submitted by the NGOs. Furthermore, the Managing Agent function is a key element of and complementary to the programmatic role of the Technical Secretariat, which is carried out by the United Nations Office for the Coordination of Humanitarian Affairs.

UNDP's Multi-Partner Trust Fund Office as the Administrative Agent for the South Sudan CHF transferred funds to the Office amounting to \$49.1 million in 2013, \$74.2 million in 2014, and \$37.7 million up to September 2015.

Based on the Terms of Reference for South Sudan CHF, the main functions of the Managing Agent are to:

- a) assume programmatic and financial accountability for funds received from the Administrative Agent;
- b) undertake capacity assessments of NGO implementing partners;
- c) prepare and sign Project Partnership Agreements and project documents for project implemented by NGOs, in accordance to the decisions of the Humanitarian Coordinator under the Standard Allocation and the CHF Reserve mechanisms;
- d) together with United Nations Office for the Coordination of Humanitarian Affairs, undertake orientation and training for NGOs with regard to the administrative, programmatic and financial procedures applicable to the South Sudan CHF;
- e) ensure timely fund disbursement on a quarterly basis to NGOs in line with the disbursement schedules in the signed Project Partnership Agreements;
- f) liaise with cluster coordinators, co-coordinators and CHF participants as necessary, particularly in relation to monitoring activities;
- g) support project monitoring activities undertaken by the Technical Secretariat;
- h) ensure financial follow-up through regular collection of financial reports based on approved budgets;
- i) ensure project closure in line with the Project Partnership Agreements;
- j) maintain information and ensure communication about UNDP disbursements to NGOs;
- k) provide financial reports to the Administrative Agent in accordance with the Memorandum of Understanding; and
- l) provide consolidated inputs on achievements of the NGO-implemented projects to the annual report of the South Sudan CHF operation.

Operating in a challenging environment where there was a considerable amount of uncertainty due to security conditions, the Managing Agent had taken steps to develop tracking tools for managing the portfolio

of projects and to facilitate its collaborative work with the United Nations Office for the Coordination of Humanitarian Affairs as co-manager of the Technical Secretariat.

## II. Audit results

OAI made two recommendations ranked high (critical) and one recommendation ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

**High priority recommendations**, arranged according to significance:

- (a) Strengthen funds management by implementing an assurance plan for all NGO implementing partners (Recommendation 2).
- (b) Finalize the standard operating procedure containing time frames for completing key financial activities and address delays in disbursing funds to NGOs (Recommendation 1).

**Medium priority recommendation:**

- (c) Review and amend the Terms of Reference for the Technical Secretariat, complete the monitoring and reporting framework, and amend the Project Partnership Agreement to ensure consistency with the Terms of Reference of the South Sudan CHF (Recommendation 3).

The detailed assessment is presented below, per audit area:

### 1. Funds allocation and disbursements

#### Issue 1 Lack of processes, metrics and documentation for timeliness of disbursements to NGOs

The objective of the South Sudan CHF, according to its Terms of Reference, is to support the timely allocation and disbursement of donor resources to the most critical humanitarian needs in the Country. To achieve this, the Office developed standard operating procedures in June 2013. These procedures described the processes, activities and time frames related to acceptance of responsibility for funds received from the Administrative Agent (the Multi-Partner Trust Fund Office) for project allocations and for the corresponding key activities related to contracting with and the disbursement of advances to NGOs. The definition and analysis of processing time frames was especially important to ensure efficient disbursement of funds.

However, the standard operating procedures had not been approved as of June 2015. Therefore, it was difficult to determine the efficiency of the payment distribution processes and whether bottlenecks, if any, existed. In discussions with the Administrative Agent and Managing Agent, it was determined that a lack of clarity existed as to which documents and instructions were to be used and followed in determining key dates.

The audit reviewed a sample of 23 projects being implemented by NGOs, with total reported expenditures of \$16.6 million (21 percent of the total expenditures for the audited period). While a complete analysis of timing and delays relating to the disbursement of advances to NGOs could not be done due to the lack of systems to track the necessary dates, the review disclosed some noticeably longer processing time as described below:

1. Days from the Managing Agent's contractual acceptance of responsibility to the receipt of funds from the Administrative Agent ranged from 3 to 18 days. As per the 'South Sudan CHF Allocation Guidelines', funds

should be disbursed in 5 to 10 days. While not all tasks related to this part of the process were under the control of the Managing Agent, they impacted the total number of days for the Humanitarian Coordinator to allocate and the Managing Agent to disburse funds to the implementing partners. Also as stated above, had the reference documents been clearer, the analysis would have shown what were outside the control of the Managing Agent to enable a better assessment of its processing efficiency.

2. Days from the Managing Agent's receipt of funds from the Administrative Agent to disbursement of the first advance to the NGOs ranged from 4 to 43 days, or an average of 23 days. This was impacted by a number of factors such as delays in obtaining capacity assessments of the partners and delays in signing the Project Partnership Agreements by the partners.
3. Days from the date of signing the Project Partnership Agreements by the NGOs (including submission of request for initial advance), to the disbursement of the initial advance by the Managing Agent, ranged from 3 to 34 days or an average of 9 days.
4. Days to disburse the initial advance to the implementing partners that had not undergone a capacity assessment took more than 14 days. These were due to the time required to engage a consultant to conduct micro-capacity assessments and to report the results of the assessment.

The lack of agreed-upon processing time frames and corresponding procedures to document and analyze actual performance might prevent the Managing Agent in identifying process inefficiencies and the determining appropriate process improvements.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Office should finalize its standard operating procedure containing time frames for completing key financial activities, monitor compliance with the established time frames, and address delays in disbursing funds to NGOs.	
<b>Management action plan:</b>	
The Office will establish time frames for the completion of key financial activities in collaboration with relevant stakeholders, document them in the revised Standard Operating Procedure and ensure adherence.	
<b>Estimated completion date:</b> December 2015	

## 2. Programmatic, and financial oversight and controls

### Issue 2 Lack of system and controls on implementing partner performance and risk assessment

As stated in the Terms of Reference and Memorandum of Understanding for the South Sudan CHF, Participating United Nations Organizations are accountable, both financially and programmatically, to the Multi-Partner Trust Fund Office, and are responsible to manage the funds according to their own internal rules. For UNDP, as the Managing Agent for NGO-implemented projects, the UNDP's 'Programme and Operations Policies and Procedures' chapters on Non-Governmental Organizations Implementation and 'Harmonized Approach to Cash Transfers Guidelines' apply.

The Office was limited in its ability to apply the UNDP Programme and Operations Policies and Procedures chapter on Non-Governmental Organizations Implementation, especially regarding project design and budgeting. Specifically, it acted mainly as signatory to the Project Partnership Agreement with the NGO Implementing Partners and as financial administrator of the funds allocated by the Humanitarian Coordinator to the projects to be implemented by those NGO partners.

The Office had not developed an assurance plan, as supported by the Harmonized Approach to Cash Transfers framework, to more comprehensively review the performance of the implementing partners. The need for such a plan was especially important, considering the high level of inherent risk related to the context under which the fund operates and the nature of the project interventions.

The review of records disclosed that the Office only reviewed implementing partner's requests for advances and expenditure reports against the approved project budget. However, there was no basis for the Office to disallow reported expenditures since it did not obtain and review the implementing partner's supporting documentation for the reported expenditures and did not review the programmatic aspects of the projects to financial reports submitted by the implementing partners.

The Office used the implementing partners quarterly financial reporting as the basis for recording expenditures and identifying budget variances. Further, the Office relied on the results of UNDP's NIM/NGO project audits to identify any refunds due from implementing partners, such as, unexpended funds, unallowable expenditures, adjustments to Implementing Partner support costs, which led to eventual delays in accounting for potential refunds .

The lack of assurance plan, which would include guidance on additional or compensating control activities to be implemented based upon the micro-assessment and assessment of the performance of the partner, may expose UNDP to increased risk of failure to attain the planned humanitarian outcomes and outputs; improper use of limited fund resources; and failure to identify and recover "idle" funds or unallowable expenditures in a timely manner.

As at the time of issuance of this report, the United Nations Office for the Coordination of Humanitarian Affairs and the Multi-Partner Trust Fund Office informed OAI that they are collaborating to create global guidelines that are applicable to the Management Agent function.

<b>Priority</b>	High (Critical)
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**Recommendation 2:**

The Office should strengthen funds management by developing and implementing an assurance plan for all NGO implementing partners, consistent with the Harmonized Approach to Cash Transfers framework, which provides for verification of programmatic delivery and review of implementing partner expenditure support documentation based upon assessed risk.

**Management action plan:**

The Office will develop and implement an assurance plan for all implementing partners in collaboration with the United Nations Office for the Coordination of Humanitarian Affairs and ensure its implementation and regular reporting on issues arising through the Technical Secretariat.

**Estimated completion date:** December 2015

**Issue 3**      Lack of consistency and clarity in reference documents resulting in unclear responsibilities

When more than one document regarding contractual agreements provides guidance or instructions to multiple parties involved in a collective effort, it is important to establish consistency in these documents.

In reviewing the documentation covering the aspects associated with the Managing Agent function, the following weaknesses were noted:

- Inconsistent report submission frequency. The Terms of Reference for the South Sudan CHF required a narrative report from the NGOs, including quantitative data on project implementation, to be submitted on a quarterly basis. On the other hand, the Project Partnership Agreement, signed between the Managing Agent and the NGOs, specified a frequency for this same requirement every six months. The Office did not provide an explanation for this inconsistency.
- Unclear reference document. The Project Partnership Agreement (Article I section D) references the agreement and its contents which, collectively, comprise the contractual agreement between UNDP and the NGOs. In practice, however, the Managing Agent's partners applied for, and (if approved) were granted, no-cost extensions by the Humanitarian Coordinator using a document which was not incorporated by reference in the Project Partnership Agreement nor included as one of the annexes to be used for modifying the terms of the agreement. Furthermore, the no-cost extensions template used did not reference the original Project Partnership Agreement.
- Absence of clear monitoring and reporting framework. In addition, it was noted that the Terms of Reference contained language concerning monitoring and reporting, highlighting that the Monitoring and Reporting Framework was under development and would be finalized in close coordination with donor representatives, cluster coordinators, participating United Nations Organizations, International Organization for Migration, and NGOs. The Technical Secretariat was responsible for developing the monitoring and reporting system on CHF-funded projects on behalf of the Humanitarian Coordinator.

As of the audit mission, the Technical Secretariat had not developed, on behalf of the Humanitarian Coordinator, a Monitoring and Reporting framework. The practice was to use the "concept note" for each allocation of the CHF as the basis for monitoring and reporting criteria. The United Nations

Office for the Coordination of Humanitarian Affairs, through the Technical Secretariat, had assumed this responsibility by engaging international United Nations Volunteers to conduct monitoring of programmatic activities.

The lack of a consistency in the documents could pose a risk to how the Managing manages its contractual agreements. Lack of clarity in the guiding documents regarding responsibilities and ownership may lead to gaps in controls and the performance of necessary tasks.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should:	
<ul style="list-style-type: none"> <li>(a) collaborate with the Office for the Coordination of Humanitarian Affairs and the Humanitarian Coordinator to review and amend the Terms of Reference for the Technical Secretariat and complete the monitoring and reporting framework; and</li> <li>(b) agree and amend the Project Partnership Agreement to ensure consistency with the Terms of Reference of the South Sudan CHF, in consultation with the Legal Support Office, and the United Nations Office for the Coordination of Humanitarian Affairs.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office will collaborate with the United Nations Office for the Coordination of Humanitarian Affairs and the Humanitarian Coordinator to review the Terms of Reference for the Technical Secretariat for purposes of clarifying programme monitoring and reporting responsibilities, and to finalize the monitoring and reporting framework.</li> <li>(b) The Office will seek guidance from the Legal Support Office on effecting the proposed changes to the Project Partnership Agreement.</li> </ul>	
<b>Estimated completion date:</b> December 2015	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.