

Report on the audit of the Democratic Republic of the Congo Pooled Fund Executive Summary

From 10 to 21 September 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the Democratic Republic of the Congo Pooled Fund. The audit covered the two distinct functions of UNDP relating to the Pooled Fund during the period from 1 January 2011 to 30 June 2012: (a) Administrative Agent and (b) Managing Agent for funds transferred to local and international non-governmental organizations (NGOs). Between 2006 and the end of 2012, the Pooled Fund had received contributions totalling \$752 million. During the period audited, UNDP, as Administrative Agent, received contributions totalling \$137 million and transferred \$144 million to participating United Nations organizations. During the same period, UNDP as Managing Agent received \$62 million in 2011 and \$26 million in the first half of 2012 for transfer to NGOs.

Since 2006, the United Nations, under the authority of the Humanitarian Coordinator, has taken a coordinated approach to humanitarian aid in the Democratic Republic of the Congo (the Country). The Pooled Fund was established upon signing of a Memorandum of Understanding between the Humanitarian Coordinator, the Office for the Coordination of Humanitarian Affairs (OCHA), participating United Nations organizations, the UNDP Multi-Partner Trust Fund Office (MPTF) as the Administrative Agent and the UNDP Democratic Republic of the Congo (the Country Office) as the Managing Agent. The MPTF Office further delegated some of its Administrative Agent functions to the UNDP Country Director.

Based on an audit risk assessment carried out by OAI in February 2012 in consultation with the MPTF Office, Representatives of the Internal Audit Services of the United Nations Organizations agreed to undertake a coordinated audit of the Pooled Fund. The coordinated audit was conducted in accordance with the Framework for Auditing Multi-Donor Trust Funds, endorsed by the United Nations Development Group in September 2007 with each participating internal audit service conducting an individual audit of their share of the Pooled Fund activities, taking into consideration risks identified in the coordinated risk assessment. The results of these individual audits would then be compiled in an overall summary report. Participating in this coordinated audit were the Internal Audit Services of the Food and Agriculture Organization of the United Nations (FAO), UNDP, the United Nations Children's Fund (UNICEF) and the United Nations World Food Programme (WFP) as well as the United Nations Office of Internal Oversight Services (OIOS) as the internal auditor of OCHA.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed UNDP functions related to the Pooled Fund 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." A "partially satisfactory" rating describes an overall acceptable situation with a need for improvement in specific areas. This rating was mainly due to weaknesses noted in the inclusion of longer term developmental concerns into humanitarian relief activities, the implementation of the Harmonized Approach to Cash Transfers (HACT) for NGO-implemented projects, and the monitoring and evaluation of these projects. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Early recovery and strategic management of the Pooled Fund	Partially Satisfactory			
1.2 Joint Pooled Fund Unit	Not Applicable			
1.3 Delegation of authority	Partially Satisfactory			
2. UNDP as Administrative Agent				
2.1 Administrative Agent fees	Partially Satisfactory			
2.2 Transfer to United Nations organizations	Satisfactory			
2.3 Reporting on project closure to the Multi-Partner Trust Fund Office	Not Applicable			
3. UNDP as Managing Agent				
3.1 Managing Agent function	Partially Satisfactory			
3.2 Management information	Partially Satisfactory			
3.3. Payments to non-governmental organizations	Satisfactory			
3.4 Technical review process	Partially Satisfactory			
3.5 Amendment of projects	Satisfactory			
3.6 Monitoring and evaluation	Partially Satisfactory			
3.7 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3.8 Project closure	Unsatisfactory			
3.9 National execution advances	Partially Satisfactory			

Key issues and recommendations

The audit raised 14 issues. There are 10 recommendations, of which four (or 40 percent) were ranked high (critical) priority, meaning “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 and may affect the organization at the global level.”

Among the 14 issues raised, two were noted to be caused by factors beyond the control of UNDP (Issues 7 and 10). There was also one issue requiring action by the Bureau of Management in close cooperation with the Bureau for Crisis Prevention and Recovery and the Bureau for Development Policy (Issue 6, referred to as “corporate issue”). These are the issues with high priority recommendations where prompt action is required:

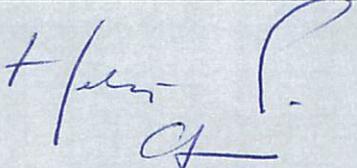
Governance and strategic management (Issue 1)

Lack of clarity on early recovery activities. The inclusion of capacity building and other longer term development concerns into humanitarian projects are needed in order to transition from a solely relief approach and to help build resilience. Host country representatives were advocating for such a transition. Yet the inclusion of some early recovery components into projects was still being debated among the lead agencies of various clusters and donors. The Pooled Fund was exploring multi-year projects as a way to build community resilience and address some of the causes of humanitarian needs, with several donors having pledged multi-year funding. A proposal was to be presented to the Pooled Fund Board in February 2013. OAI recommends that the Country Office continue to engage with the Pooled Fund Board and the Humanitarian Country Team to advocate for multi-year projects as a way to transition from relief to recovery and include longer term transition and development activities in projects in a more visible, consistent and coordinated manner.

Managing Agent function (Issue 6)	<u>Corporate Issue: Insufficient guidance on UNDP engagement with non-governmental organizations in a humanitarian context.</u> UNDP, when acting as Managing Agent, uses the national implementation modality that has been developed for UNDP development projects. In the view of OAI, guidance provided was insufficient on how these processes can be applied and adapted when partnering with NGOs in a humanitarian context. OAI recommends that the Bureau of Management, in close cooperation with the Bureau for Crisis Prevention and Recovery and the Bureau for Development Policy, provides policy/guidance on UNDP engagement of NGOs in the humanitarian context.
Monitoring and evaluation (Issue 11)	<u>Weaknesses in the monitoring and evaluation function.</u> Monitoring and evaluation of projects was performed more as a compliance rather than an evaluation function. Other issues noted were the lack of an objective evaluation of project outputs and the lack of technical input from the clusters during monitoring visits. OAI recommends that the Country Office, in coordination with the clusters, sets up a feedback mechanism on issues raised during monitoring visits and implements a rotational policy for field evaluators.
Harmonized Approach to Cash Transfers (Issue 12)	<u>Weaknesses in the implementation of HACT assurance activities.</u> The HACT approach in the Country was not yet fully effective at the time of the audit fieldwork. OAI noted issues with the quality of micro-assessments, which might have led to an overrating of some NGOs. In addition, OAI was not able to determine whether issues noted during spot checks were addressed and monitored accordingly. OAI recommends that the Country Office improves the HACT assurance process through a systematic quality review of spot check reports, follow-up of action plans identified in spot check reports, clearer training material, and a more inclusive approach of spot checks and updated risk assessment with all agencies that are part of the Pooled Fund.

Management comments and action plan

The Country Director accepted all recommendations and is in the process of implementing them.



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