



INTERNAL AUDIT DIVISION

REPORT 2014/078

Audit of the Office for the Coordination
of Humanitarian Affairs (OCHA)
Managing Agent role for the Somalia
Common Humanitarian Fund

Overall results relating to the OCHA Managing
Agent role for the Somalia Common
Humanitarian Fund were unsatisfactory.
Implementation of two critical and two
important recommendations remains in
progress.

FINAL OVERALL RATING: UNSATISFACTORY

13 August 2014
Assignment No. AN2013/590/01

CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. OBJECTIVE AND SCOPE	2-3
III. AUDIT RESULTS	3-10
A. Risk management and strategic planning mechanisms	4-5
B. Programme management	5-9
C. Mandates and delegation of authority system	9-10
IV. ACKNOWLEDGEMENT	10
 ANNEX I Status of audit recommendations	
 APPENDIX I Management response	

AUDIT REPORT

Audit of the Office for the Coordination of Humanitarian Affairs Managing Agent role for the Somalia Common Humanitarian Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Office for the Coordination of Humanitarian Affairs (OCHA) Managing Agent role for the Somalia Common Humanitarian Fund.

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

The Common Humanitarian Fund for Somalia

3. The Common Humanitarian Fund (CHF) for Somalia (the Fund) was established in 2010 as a country-based common financing mechanism “to support a coordinated approach to the delivery of humanitarian aid in Somalia within the framework of the Consolidated Appeals Process which outlined the strategic and operational plan for the United Nations and partners carrying out humanitarian assistance in Somalia”. The objectives of the Fund were to: (a) strategically fund assessed humanitarian action, and (b) support priority clusters and regional priorities in accordance with identified needs. The Fund was established as a Multi-Partner Trust Fund (MPTF) through the Memorandum of Understanding (MOU) signed by 11 Participating United Nations Organizations. The operational processes and responsibilities were outlined in the CHF Guidelines (the Guidelines) developed by OCHA Somalia.

4. According to the Guidelines, the OCHA Managing Agent role was carried out at three organizational unit levels: Administrative Services Branch in Geneva (ASB-Geneva), OCHA Somalia and Funding Coordination Section in New York. Their specific responsibilities included the following:

For ASB-Geneva:

- Clearing and signing contracts between OCHA, acting as Managing Agent, and non-governmental organization (NGO) implementing partners, including project proposals and detailed budgets;
- Disbursing funds to NGO implementing partners;
- Recordkeeping and financial reporting on funds received and disbursed;
- Responding to financial audit queries; and
- Preparing certified statements of accounts to donors.

For OCHA Somalia:

- Reviewing and validating interim reports submitted by NGOs using the CHF reporting template and certified financial statements;
- Contracting an outside audit firm to undertake audits of projects; and
- Reviewing final narrative reports submitted by implementing partners, using the CHF reporting template and certified financial statements.

For the Funding Coordination Section:

- Supporting financial analysis based on the financial data provided by the Administrative Agent and the Managing Agent, and providing programmatic support and donor liaison;
- Providing training, surge capacity and start-up support; and
- Facilitating contact with the MPTF Office and United Nations agencies.

5. The financial costs for the operations of OCHA Somalia as a whole were about \$10 million annually for the period 2012 and 2013 and OCHA Somalia had approximately 100 staff.

6. From its inception to December 2013, the Fund had cumulatively received \$262 million, out of which \$233 million was transferred to various United Nations agencies. As Managing Agent, OCHA received about \$162 million (or 69 per cent) of the total transferred to United Nations agencies, to fund NGO-implemented projects. As of 31 December 2013, the total amount received by OCHA was programmed and disbursed to 267 projects through four rounds of standard allocations. Approximately \$34 million of the total amount received by OCHA was allocated outside the standard allocation process to 164 projects from the emergency reserve to support lifesaving and time critical activities in the same period.

7. Comments provided by OCHA are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The audit was conducted to assess the adequacy and effectiveness of the OCHA governance, risk management and control processes in providing reasonable assurance regarding the **effectiveness and efficiency of the OCHA Managing Agent role for the Somalia Common Humanitarian Fund**.

9. The audit was included in the 2013 OIOS risk-based work plan due to risk of inadequate monitoring of projects executed by implementing partners potentially exposing OCHA to reputational risks on the use of the resources of the pooled funds.

10. The key controls tested for the audit were: (a) risk management and strategic planning mechanisms; (b) programme management; and (c) mandates and delegation of authority system. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Risk management and strategic planning mechanisms** - controls that provide reasonable assurance that key risks relating to the CHF Managing Agent role of OCHA are identified, assessed and mitigated.

(b) **Programme management** - controls that provide reasonable assurance that: (i) OCHA has adequate project management capacity to achieve its mandate as Managing Agent for the CHF and has adequate financial and human resources as well as appropriate project management tools; and (ii) a system exists to report programme performance, financial performance and progress toward the achievement of the intended results of emergency response projects.

(c) **Mandates and delegation of authority system** - controls that provide reasonable assurance that OCHA managers, through United Nations service providers, carry out their responsibilities in accordance with relevant regulations and rules and delegated authorities when committing OCHA resources.

11. OIOS conducted the audit from 17 May to 6 August 2013. The audit covered the period from 2011 to May 2013.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

13. The OCHA governance, risk management and control processes examined were **unsatisfactory**¹ in providing reasonable assurance regarding the **effectiveness and efficiency of the OCHA Managing Agent role for the Somalia Common Humanitarian Fund**. OIOS made eight recommendations to address issues identified in the audit.

14. OIOS observed that OCHA needed to strengthen its risk management tools taking into account the operating environment in Somalia that was characterized by high security risks and difficulty of access in the management of humanitarian activities. The assumption by OCHA of the CHF Managing Agent role for the first time in such an operating environment significantly increased the complexity of its operations and its exposure in Somalia. Subsequent to the audit, OCHA took actions to improve its risk management tools by introducing a new CHF accountability framework that strengthened the capacity assessment of implementing partners, its project review mechanism and aspects of project financial reporting.

15. However, OCHA needed to review and improve the template for agreements with implementing partners to address inconsistent and unclear reporting requirements and to require disclosure of subcontractors. OCHA needed to immediately discontinue its current policy of making upfront disbursements of 80 per cent of approved project budgets to implementing partners and develop specific disbursement guidelines for CHF activities. Although OCHA introduced new policies to improve field monitoring, there was no assurance that the funds disbursed to NGOs were used for the intended purposes. The systems to monitor CHF-funded projects were ineffective due to lack of presence in and access to locations where humanitarian intervention was most needed. Field project site monitoring was not effectively carried out despite OCHA efforts to use third parties, and the performance reports submitted by the implementing partners could not always be verified. There were substantial delays in performing the project audits and clearing significant amounts of outstanding obligations, leading to further delays in financial closure of projects. OCHA Somalia committed more than \$2.5 million without following United Nations procurement policy and procedures in contracting audit firms and engaging other service providers without delegation of authority.

16. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of two critical and two important recommendations remains in progress.

¹ Unsatisfactory overall ratings apply to audit results concluding that one or more significant and/or pervasive deficiencies exist in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effectiveness and efficiency of the OCHA Managing Agent role for the Somalia Common Humanitarian Fund	(a) Risk management and strategic planning mechanisms	Satisfactory	Satisfactory	Satisfactory	Partially satisfactory
	(b) Programme management	Unsatisfactory	Unsatisfactory	Unsatisfactory	Partially satisfactory
	(c) Mandate and delegation of authority system	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
FINAL OVERALL RATING: UNSATISFACTORY					

A. Risk management and strategic planning mechanisms

Need to strengthen risk management tools

17. At the time of the audit, OCHA Somalia’s risk management approach was neither systematic nor comprehensive, despite its efforts to identify risks at various levels. OCHA Somalia had developed a risk matrix which listed potential strategic and operational risks related to the perception of ineffective delivery of humanitarian assistance, reliance on local partners for monitoring and evaluation, and misuse of aid funds in the context of the CHF. However, the risk matrix did not serve as a robust mechanism to systematically capture potential strategic and operational risks and assess them with respect to their likelihood of occurring and their impact on the effectiveness and efficiency of OCHA operations.

18. In addition, under the delegated authority ASB-Geneva was primarily responsible for the financial management of the CHF funds and worked closely with the country office in formulating budget and disbursement of CHF funds. However, ASB-Geneva had not developed formal risk management mechanisms to identify and mitigate risks related to OCHA Somalia assuming the Managing Agent role for the financial management of CHF activities in Somalia.

(1) OCHA should strengthen its risk management tools to identify and assess the risks related to its Managing Agent role for the Common Humanitarian Fund activities in Somalia.

OCHA accepted recommendation 1 and stated that it had introduced a new and more comprehensive Accountability Framework for CHF Somalia, which was provided to OIOS. The Accountability Framework included detailed tools and procedures for a more systematic approach to risk assessment. OCHA also recognized the need to further strengthen its risk management of the pooled fund. Based on the actions taken by OCHA, recommendation 1 has been closed.

Need to strengthen the capacity assessment review methodology of the non-governmental organization implementing partners

19. The Somalia CHF Guidelines required OCHA to determine the capacity and expertise of organizations and their implementing partners when prioritizing projects. In 2013, OCHA initiated a review to determine whether the CHF implementing partners had the requisite capacity to receive and manage CHF funds and implement the projects with efficiency and effectiveness. The assessment targeted 112 NGO partners using a standardized evaluation methodology to rate each NGO capacity in: (a) operational management, (b) financial management, and (c) internal controls including internal policies and standard operating procedures. At the time of the audit, the methodology of the capacity assessment needed to be strengthened as it was mainly based on a desk review of documents submitted by the implementing partners and opinions provided by clusters. Although the targeted implementing partners had previously implemented CHF projects, they had not been asked to complete a self-assessment of their capacity.

20. Also, the terms of reference of the review were not shared with participating agencies to ensure that the assessment was comprehensive by taking into consideration the lessons learned in an environment where the United Nations agencies and international NGOs used the same pool of national and international NGOs. The Risk Management Unit (RMU), which kept a database of NGOs intervening in Somalia working under the Humanitarian Coordinator/Resident Coordinator, had not been requested to provide input. The combination of the work of the RMU and an effectively carried out capacity assessment had the potential for better informed decision-making for the Humanitarian Coordinator when allocating funds.

(2) OCHA should strengthen its process to assess the capacity of the non-governmental organization implementing partners by reviewing the terms of reference for the capacity assessment exercise and taking into consideration the lessons learned identified by United Nations Agencies and the Risk Management Unit.

OCHA accepted recommendation 2 and stated that it had introduced a new and more comprehensive Accountability Framework for CHF Somalia, which was provided to OIOS. The Accountability Framework included detailed tools and procedures to carry out capacity assessment of implementing partners to determine their eligibility to receive CHF funds. OCHA also indicated that it would make further efforts to ensure more uniform application of the capacity assessment methodology by updating Global Guidelines for Country-Based Pooled Funds. Based on the actions taken by OCHA, recommendation 2 has been closed.

B. Programme management

The current template of the memorandum of agreement with non-governmental organization implementing partners needed to be updated

21. A review of 43 project agreements between OCHA and CHF implementing partners indicated the following deficiencies regarding three important accountability areas:

- (a) Inconsistent financial reporting requirements: Some implementing partners were required to submit financial reports two months after the completion of a project, while others were required to submit two reports: one interim and one final. Also, some of the implementing partners were asked to report by expenditure categories such as direct

inputs, staffing, training, contracts, etc., while others were not. In some cases, ASB-Geneva issued amendments to require interim and final reports.

- (b) Unclear responsibility for receiving certified financial reports: The agreements did not specifically designate an organizational unit to which the implementing partners should submit certified reports.
- (c) Main subcontractors were not disclosed in agreements: Implementing partners were not required to include their main subcontractors in agreements. As a result, there was a risk that OCHA and oversight bodies would lack legal rights to obtain project-related information to determine whether the funds were used for the intended purposes and to hold subcontractors accountable for any discrepancies. The disclosure of subcontractors was all the more important in Somalia since United Nations agencies and NGOs (both international and local) used local partners due to their limited presence in the field.

22. The lack of consistency and gaps in agreements with implementing partners diminished the capacity of OCHA to hold the implementing partners fully accountable for the use of funds for the intended purposes.

(3) OCHA, in collaboration with the United Nations Office of Legal Affairs, should review the current memorandum of agreement template and include provisions for operational accountability of the implementing partners regarding: (a) consistent substantive and financial reporting requirements; (b) designation of OCHA organizational units responsible for receiving the certified financial reports; and (c) disclosure of main subcontractors in agreements.

OCHA accepted recommendation 3 and stated that it was consulting with the Office of Legal Affairs on the revised version of the MOU and that the revised MOU was expected to take into effect in 2015 as part of the roll-out of the Global Guidelines for Country Based Pooled Funds. Recommendation 3 remains open pending receipt of the approved MOU template and the clarification of the organizational units responsible for receiving certified financial reports.

Specific guidelines were needed for disbursing funds to non-governmental organization implementing partners

23. The CHF MOU required OCHA as a participating organization to use its policies and procedures to disburse CHF funds to NGO implementing partners. OCHA did not have specific guidelines for the disbursement of CHF funds and thus used Emergency Relief Funds (ERF) guidelines, which were not designed for CHF activities. These guidelines stipulated that for projects with a lifespan of six months or less, 80 per cent of the total project budget would be disbursed to the implementing partners to ensure quick impact. However, most CHF projects were planned for a lifespan of about six months but usually lasted more than 12 months.

24. OCHA was taking a financial risk by disbursing 80 per cent of the project budgets upfront because of the operating environment and the related risks in Somalia, including insecurity, limited access, lack of field presence, inadequately vetted NGOs, lack of assurance on the internal controls of the NGOs, and lack of effective monitoring systems.

(4) OCHA should develop specific disbursement guidelines for Common Humanitarian Fund activities in Somalia and immediately discontinue its current policy of making upfront disbursements of 80 per cent of approved project budgets to implementing partners.

OCHA accepted recommendation 4 and stated that the OCHA Global Guidelines for Country Based Pooled Funds would be endorsed in the fourth quarter of 2014. All OCHA-managed Country Based Pooled Funds, including the Somalia CHF, would introduce a risk-based approach to fund disbursement. The approach of 80 per cent upfront disbursements will be discontinued when the new policy is rolled out. Recommendation 4 remains open pending issuance and provision of the OCHA Global Guidelines for Country-Based Pooled Funds to OIOS.

Stronger project field monitoring mechanisms were needed

25. According to Somalia CHF Guidelines, OCHA was required to establish solid project-level monitoring mechanisms including site visits, third-party monitoring, and remote monitoring where access was difficult. This requirement was further magnified when OCHA assumed the Managing Agent role in 2010, to institute and implement effective field monitoring mechanisms to ensure that funds disbursed to NGOs were used for the intended purposes.

26. In order to mitigate risks arising out of its lack of field monitoring capacity, OCHA attempted to institute a monitoring mechanism by piloting third-party monitoring using independent contractors. In 2012, OCHA contracted companies to carry out monitoring visits to cover the activities of 12 CHF-funded projects. According to OCHA Somalia, the reports submitted by the contractors did not meet OCHA expectations and were not in accordance with the relevant terms of reference. At the time of the audit, OCHA Somalia was in the process of signing new contracts with four companies to undertake monitoring visits for 38 projects. This use of third-party monitoring was not set up as a continuous monitoring mechanism but was established to undertake a one-time visit to conduct spot checks.

(5) OCHA should develop and implement policies and procedures for the effective field monitoring of CHF projects in Somalia implemented by non-governmental organizations.

OCHA accepted recommendation 5 and stated that CHF Somalia had included field monitoring as part of the Accountability Framework of the Fund. The current monitoring plan employed a risk-based approach, which determined monitoring activities according to partner risk level. OCHA Somalia was in the process of procuring monitoring services by using a private company (third party) through the United Nations Development Programme (UNDP). In addition, policies and procedures for field monitoring will be part of the operational modalities of the Global Guidelines for Country Based Pooled Funds, which will be endorsed in the fourth quarter of 2014. The Global Guidelines will stipulate that all types of organizations that receive funding from a Country-Based Pooled Fund will be monitored. Recommendation 5 remains open pending receipt of field monitoring policies and procedures.

Financial reports uploaded in the website were not verified as to their reliability

27. According to the MOU between OCHA and the NGO implementing partners, the latter were required to submit certified financial statements to OCHA except for very short-term projects. However, OIOS observed that none of the 43 NGO projects covered in this audit had submitted certified financial statements to the country office covering the period from 2011 to May 2013. Instead, they uploaded financial data in the CHF database maintained by OCHA Somalia. OCHA used external auditors to audit all NGO-implemented projects. OIOS reviewed available audit reports for the 43 projects and noted that such audits were “desk based” and the external auditors “did not verify the existence of any activities that took place during implementation” of the projects. Also, the financial figures uploaded in the template in the database were not verified as to their reliability. As a result, there was no effective financial monitoring of CHF projects.

(6) OCHA should verify that the financial reports uploaded in the website for projects implemented by non-governmental organizations are appropriately certified to ensure their reliability.

OCHA accepted recommendation 6 and stated that since November 2013, the CHF Somalia began systematically collecting certified final financial reports from all NGOs. Now an NGO not only uploads the final report into the CHF Online Database electronically but concurrently submits a dated, stamped and signed version of the final financial report via email. As of 31 December 2013, 57 certified final financial reports were submitted out of 68 that were due – a compliance rate of 87 per cent. The CHF Somalia verifies the final financial report against the original budget for any discrepancies. The CHF database is reviewed continuously for reports that are due and if the reporting standards are not adhered to targeted messages are sent to NGOs for report submission. Based on the actions taken by OCHA, recommendation 6 has been closed.

The audit strategy for the projects funded by the Common Humanitarian Fund needed to be reassessed to ensure effectiveness and efficiency

28. As the OCHA CHF Global guidelines were not finalized, project audit policies were governed by the ERF Global Guidelines, which stated that the ERF projects should be audited at least once during their lifetime and that the country office was responsible for the local audit process including procurement of audit services. Although the country offices played a major role in organizing the audits of projects including coordination at the country level, they did not have delegation of authority for procurement of services above \$2,500; therefore, they relied on a third-party to contract the audit services. Although ASB-Geneva had the delegation of authority and the responsibility for financial monitoring and reporting of the CHF funds, the responsibility for contracting the audit services was relegated to the OCHA country office without clearly assigning the oversight role of ASB-Geneva in the contracting of audit services and to review and validate the reports of project audits.

29. As of May 2013, of the 205 completed projects, only 64 were audited and 141 project audits were outstanding. The delay in completing project audits resulted in: (a) an inability by OCHA to draw lessons learned from audits on the adequacy of the project implementation capacity of implementing partners; (b) lack of timely clearance of the outstanding 20 per cent of the project funds; and (c) lack of timely completion and financial closure of projects thus delaying the reporting of actual expenditure.

30. In addition, the project audit strategy was costly. OCHA guidelines and agreements with NGOs required that all CHF-funded projects be audited at least once in their lifetime, resulting in 100 per cent coverage of all projects irrespective of their size, lifespan, and level of risk. The cost of an individual project audit ranged from \$2,500 to \$4,000; this was despite the fact that the same NGO was potentially implementing several CHF-funded projects. The audit fees were paid per project audited rather than by implementing partner portfolio of CHF-funded projects. A consideration of a risk-based audit approach likely would reduce costs and could provide more effective and faster audit coverage.

(7) OCHA should adopt a risk-based audit approach targeting higher risk projects and consider a project portfolio approach whereby audits relate to multiple Common Humanitarian Fund projects of selected implementation partners rather than auditing each project.

OCHA accepted recommendation 7 and stated that the Global Guidelines for Country-Based Pooled Funds would include provisions that promote a risk-based approach to audits as part of the Accountability Framework. Actual implementation of such an approach needed to be carefully

considered and negotiated and OCHA would therefore not be in a position to implement it immediately when the Global Guidelines take into effect. Recommendation 7 remains open pending development and issuance of a risk-based audit strategy for CHF projects.

C. Mandates and delegation of authority system

Procurement of goods and services needed to be consistently carried out through competitive processes

31. OCHA Somalia had no delegation of authority for procurement of goods and services over the limit of \$2,500. Therefore, according to the OCHA Field Administrative Manual, any procurement action in the field above \$2,500 was to be done through local service provider A.

32. In accordance with United Nations policies, procurement of goods and services shall be made on the basis of effective competition, including formal methods of solicitation and selection of contractors. As of May 2013, OCHA Somalia had committed over \$2.5 million in procurement of services without solicitation and competitive selection of vendors. These contracts included audit services, implementing partner capacity assessments and training, among others. For the audit services contracts, OCHA Somalia had initially used service provider A to issue a Request for Proposal (RFP). At the end of the initial contract with the selected audit firm in 2012, OCHA decided to carry out another process of selecting an audit firm under a Long Term Agreement. Service provider A carried out a competitive bidding process and recommended the selection of a vendor from a shortlist of three audit firms. However, OCHA rejected the selection of this vendor and indicated that the selected audit firm was known for lowering prices to win market share, while the quality of the service provided was often not adequate.

33. Instead, OCHA arranged to sign a letter of agreement with service provider B to contract with the firm that had the highest bid. The letter of agreement between OCHA and its service provider B clearly indicated that this service provider would issue the contracts to vendors while OCHA would be responsible for the prequalification and selection process. OIOS confirmed that neither service provider B nor OCHA carried out a separate competitive bidding prior to selecting the audit firm that submitted the highest bid to service provider A. Under this process, the value of audit contracts awarded to the vendor was about \$800,000. OCHA Somalia indicated that its decision to opt for service provider B was driven by the urgency of undertaking the audits. This option was, however, not properly justified as the requirement for auditing NGO-implemented projects were provided under each project. The option to use service provider B was due to lack of planning for procurement of services on a competitive basis as required under United Nations procurement procedures.

34. In addition, OCHA arranged for a capacity assessment contract amounting to \$644,000 through service provider B without conducting competitive bidding. This contract was signed with the same audit firm that was awarded the audit services contract of \$800,000, raising the total value of contracts with the vendor to over \$1.5 million. The vendor had also been previously engaged to provide training to implementing NGOs on financial management and record keeping. These various functions given to the same audit firm created a potential conflict of interest because the audit firm assessed capacity, trained and audited the same implementing partners. The use of service provider B to contract these services enabled OCHA to conduct the procurement without the required vendor solicitation and competitive bidding.

(8) OCHA Somalia should establish a stronger mechanism for ensuring the timely procurement of services on a competitive basis as required by United Nations procurement procedures.

OCHA accepted recommendation 8 and stated that OCHA Somalia undertook all procurement of services (including audit and monitoring) through UNDP Somalia. The procurement process was governed by the official UNDP Somalia procurement guidelines. OCHA Somalia planned all procurement items through a biannual procurement plan to ensure timely procurement of services. OIOS reiterates that procurement activities were undertaken that were not in compliance with the stated guidelines. However, based on the actions now taken by OCHA, recommendation 8 has been closed.

IV. ACKNOWLEDGEMENT

35. OIOS wishes to express its appreciation to the Management and staff of OCHA for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the Office for the Coordination of Humanitarian Affairs Managing Agent role for the Somalia Common Humanitarian Fund

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	OCHA should strengthen its risk management tools to identify and assess the risks related to its Managing Agent role for the Common Humanitarian Fund activities in Somalia.	Important	C	Action completed.	
2	OCHA should strengthen its process to assess the capacity of the non-governmental organization implementing partners by reviewing the terms of reference for the capacity assessment exercise and taking into consideration the lessons learned identified by United Nations Agencies and the Risk Management Unit.	Important	C	Action completed.	
3	OCHA, in collaboration with the United Nations Office of Legal Affairs, should review the current memorandum of agreement template and include provisions for operational accountability of the implementing partners regarding: (a) consistent substantive and financial reporting requirements; (b) designation of OCHA organizational units responsible for receiving the certified financial reports; and (c) disclosure of main subcontractors in agreements.	Important	O	Revision of the MOU template and clarification of the organizational units responsible for receiving certified financial reports.	June 2015
4	OCHA should develop specific disbursement guidelines for Common Humanitarian Fund activities in Somalia and immediately discontinue its current policy of making upfront disbursements of 80 per cent of approved project budgets to implementing partners.	Critical	O	Issuance and provision of the OCHA Global Guidelines for Country-Based Pooled Funds to OIOS.	June 2015

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by OCHA in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the Office for the Coordination of Humanitarian Affairs Managing Agent role for the Somalia Common Humanitarian Fund

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
5	OCHA should develop and implement policies and procedures for the effective field monitoring of CHF projects in Somalia implemented by non-governmental organizations.	Critical	O	Issuance of the Global Guidelines including field monitoring procedures.	June 2015
6	OCHA should verify that the financial reports uploaded in the website for projects implemented by non-governmental organizations are appropriately certified to ensure their reliability.	Important	C	Action completed.	
7	OCHA should adopt a risk-based audit approach targeting higher risk projects and consider a project portfolio approach whereby audits relate to multiple Common Humanitarian Fund projects of selected implementation partners rather than auditing each project.	Important	O	Development and issuance of a risk-based audit strategy for CHF projects.	December 2015
8	OCHA Somalia should establish a stronger mechanism for ensuring the timely procurement of services on a competitive basis as required by United Nations procurement procedures.	Critical	C	Action completed.	

APPENDIX I

Management Response

OFFICE FOR THE COORDINATION OF HUMANITARIAN AFFAIRS

TO: Carmen Vierula, Chief, Internal Audit Division
A: Office of Internal Oversight Services, OIOS

DATE: 22 July, 2014

REFERENCE:

FROM: Valente Amos, Under-Secretary-General for Humanitarian
DE: Affairs and Emergency Relief Coordinator

SUBJECT: **OCHA comments on OIOS draft report AN2013/590/01 – “Audit of the Office
OBJET: for the Coordination of Humanitarian Affairs Managing Agent role for the
Somalia Common Humanitarian Fund”**

1. Thank you for sharing the draft report of the “Audit of the Office for the Coordination of Humanitarian Affairs Managing Agent role for the Somalia Common Humanitarian Fund”.
2. The findings and recommendations of the draft report were reviewed and OCHA has no further comments to make.
3. OCHA accepts all recommendations issued by OIOS. Attached, please find the action plan for implementing these and supporting documentation for recommendations OCHA considers as implemented.
3. We stand ready to provide you with any additional clarifications, if needed.

cc:

Kyung-Wha Kang
Kelly David
Wiebke Uhde

Management response

Audit of the Office for the Coordination of Humanitarian Affairs Managing Agent role for the Somalia Common Humanitarian Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OCHA should strengthen its risk management tools to identify and assess the risks related to its Managing Agent role for the Common Humanitarian Fund activities in Somalia.	Important	Yes		Recommendation closed.	-
2	OCHA should strengthen its process to review the capacity of the non-governmental organization implementing partners by reviewing the terms of reference for the capacity assessment exercise and taking into consideration the lessons learned identified by United Nations Agencies and the Risk Management Unit.	Important	Yes		Recommendation closed	-
3	OCHA, in collaboration with the United Nations Office of Legal Affairs, should review the current memorandum of agreement template and include provisions for operational accountability of the implementing partners regarding: (a) consistent substantive and financial reporting requirements; (b) designation of OCHA organizational units responsible for receiving the certified financial reports; and (c) disclosure of main subcontractors in agreements.	Important	Yes	OCHA FCS	Q2 2015	OCHA is currently consulting with the Office of Legal Affairs (OLA) on the revised version of the MOU. The expectation is that the revised MOU will take into effect in 2015 as part of the roll-out of the Global Guidelines for Country Based Pooled Funds.
4	OCHA should develop specific disbursement guidelines for Common	Critical	Yes	OCHA FCS	Q2 2015	The OCHA Global Guidelines for Country Based Pooled Funds will be

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management response

Audit of the Office for the Coordination of Humanitarian Affairs Managing Agent role for the Somalia Common Humanitarian Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	Humanitarian Fund activities in Somalia and immediately discontinue its current policy of making upfront disbursements of 80 per cent of approved project budgets to implementing partners.					endorsed in the fourth quarter of 2014. All OCHA-managed Country Based Pooled Funds, including the Somalia CHF, will introduce a risk-based approach to fund disbursement. The approach of 80 per cent up front disbursements will be discontinued when the new policy is rolled out.
5	OCHA should develop and implement policies and procedures for the effective field monitoring of CHF projects in Somalia implemented by non-governmental organizations.	Critical	Yes	OCHA Somalia, OCHA/FCS	Recommendation closed	<p>OCHA considers this recommendation closed.</p> <p>CHF Somalia has included field monitoring as part of the accountability framework of the fund. The current monitoring plan employs a risk-based approach which determines monitoring activities according to partner risk level. Field monitoring was conducted in 2013 as part of a pilot project to test third party monitoring. OCHA Somalia is currently in the process of procuring monitoring services by using a private company (third party) through UNDP. (see attached evidence: Recommendation 5 – Accountability Framework).</p> <p>In addition, policies and procedures for field monitoring will be part of the operational modalities of the Global Guidelines for Country Based Pooled Funds which will be endorsed in the fourth quarter of 2014. The Global</p>

Management response

Audit of the Office for the Coordination of Humanitarian Affairs Managing Agent role for the Somalia Common Humanitarian Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						Guidelines will stipulate that all types of organizations that receive funding from a Country-Based Pooled Fund will be monitored.
6	OCHA should verify that the financial reports uploaded in the website for projects implemented by non-governmental organizations are appropriately certified to ensure their reliability.	Important	Yes	OCHA Somalia	Recommendation closed	OCHA considers this recommendation closed Certified financial reports have been collected from NGOs since November 2013. The CHF database is reviewed continuously for reports that are due and if the reporting standards are not adhered to targeted messages are sent to NGOs for report submission. (see attached evidence Recommendation 6 - Supporting Documentation).
7	OCHA should adopt a risk-based audit approach targeting higher risk projects and consider a project portfolio approach whereby audits relate to multiple Common Humanitarian Fund projects of selected implementation partners rather than auditing each project.	Important	Yes	OCHA FCS	Q4 2015	The Global Guidelines for Country-Based Pooled Funds will include provisions that promote a risk-based approach to audits as part of the accountability framework. Actual implementation of such an approach needs to be carefully considered and negotiated and OCHA will therefore not be in a position to implement it immediately when the Global Guidelines take into effect.
8	OCHA Somalia should establish a stronger mechanism for ensuring the timely procurement of services on a competitive basis as required by United Nations procurement procedures.	Critical	Yes	OCHA Somalia	Recommendation closed	OCHA considers this recommendation closed. OCHA Somalia undertakes all procurement of services (including

Management response

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						audit and monitoring) through UNDP Somalia. The procurement process is governed by the official UNDP Somalia procurement guidelines. OCHA Somalia plans all procurement items through a biannual procurement plan to ensure timely procurement of services. (see attached evidence for Recommendation 8 – Supporting Documentation).