



INTERNAL AUDIT DIVISION

REPORT 2015/189

Audit of the management of the Central Emergency Response Fund in the Office for the Coordination of Humanitarian Affairs

Overall results relating to the effective management of the Central Emergency Response Fund were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

24 December 2015
Assignment No. AN2014/590/05

CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. OBJECTIVE AND SCOPE	2
III. AUDIT RESULTS	2-8
Fund Management	3-8
IV. ACKNOWLEDGEMENT	8
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of the management of the Central Emergency Response Fund in the Office for the Coordination of Humanitarian Affairs

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the Central Emergency Response Fund (CERF) in the Office for the Coordination of Humanitarian Affairs (OCHA).
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.
3. CERF was established as a general trust fund on 15 December 2005 to provide international and multilateral funding to: (i) promote early and coordinated action and response to save lives; (ii) enhance response to time-crucial requirements based on demonstrable needs; and (iii) strengthen core elements of humanitarian response in under-funded crises. It was launched on 9 March 2006.
4. CERF pooled contributions were mainly received from Member States and supplemented by donations from foundations, the private sector and individuals. In 2012, CERF received contributions totaling \$426 million, while the contributions in 2013 amounted to \$479 million.
5. CERF provided funding for humanitarian operations in countries at the onset of emergencies, during significant deterioration of existing emergencies, and for underfunded emergencies to address core humanitarian needs. CERF grants were disbursed under two windows, namely, rapid response and underfunded emergencies. Rapid response grants were meant to reduce the inconsistency and delays experienced by humanitarian organizations when receiving voluntary contributions. The underfunded grants were awarded to support humanitarian response activities during an underfunded emergency.
6. An Advisory Group comprising 18 independent experts advised the Secretary-General on CERF. The Emergency Relief Coordinator was responsible for managing CERF on behalf of the Secretary-General. Within the Corporate Programmes Division, the substantive responsibility for the management of CERF was vested in the CERF secretariat in New York. The CERF secretariat supervised the management of all aspects of grants and loans, including the selection of eligible countries for underfunded grants, processing of proposals, development of guidelines, and management of the application, approval, monitoring and reporting on projects. The secretariat worked with Humanitarian Country Teams and OCHA country/regional offices or Resident/Humanitarian Coordinator country offices within the affected countries, to receive project proposals and reports on project progress from its implementing partners. The CERF secretariat disbursed funds through the Office of Programme Planning, Budget and Accounts (OPPBA) to implementing partners, which were United Nations agencies, funds and programmes. The implementing partners contracted various government partners and non-governmental organizations to implement CERF projects. In 2012, CERF approved \$489 million in project grants to 51 countries. A total of \$482 million was allocated to 45 countries in 2013.
7. The CERF secretariat was headed by a Chief at the D-1 level and operated with 24 staff and three interagency staff on loan. The secretariat's administration costs for 2012 and 2013 were \$4.1 million and

\$4.7 million respectively. The 2010 Secretary-General's bulletin on CERF governed its establishment and operations.

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

II. OBJECTIVE AND SCOPE

9. The audit was conducted to assess the adequacy and effectiveness of OCHA governance, risk management and control processes in providing reasonable assurance regarding the **effective management of CERF**.

10. The audit was included in the OIOS work plan for 2014 due to the financial and reputational risks involved in implementing emergency humanitarian assistance projects.

11. The key control tested for the audit was fund management. For the purpose of this audit, OIOS defined fund management as controls that provide reasonable assurance that CERF has systems to: (i) mobilize, receive, account for and administer donor funding; (ii) receive, review and approve project proposals; (iii) disburse and account for funds; and (iv) oversee projects and report on their implementation.

12. The key control was assessed for the control objective shown in Table 1.

13. OIOS conducted this audit from July 2014 to February 2015. The audit covered the period from January 2012 to December 2013.

14. 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

15. The OCHA governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of CERF**. OIOS made two recommendations to address issues identified in the audit. The Advisory Group was performing its role according to its terms of reference. Funds were mobilized to fulfil targets for emergency situations and donor relationships were adequately maintained. The CERF secretariat had effective controls over the receipt and recording of funds from donors and adequate policies and procedures to guide the application for grants. The secretariat was taking action to address delays in sub-grant payments by United Nations agencies. However, the Emergency Relief Coordinator needed to reassess the adequacy of the reporting and accountability mechanisms for CERF to ensure they were effective in monitoring the use and impact of the funds. The CERF secretariat needed to review and reconcile its accounting records and follow up any overdue final financial reports with implementing partners or recover unencumbered/unspent funds from them.

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance is at risk regarding the achievement of control and/or business objectives under review.

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

Table 1: Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of CERF	Fund management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Fund management

The Advisory Group performed its role in accordance with its terms of reference

17. The Secretary-General’s bulletin on the establishment and operation of CERF required that an Advisory Group be appointed comprising 18 independent experts to examine the Fund’s performance and reporting mechanisms. The Advisory Group’s terms of reference included requirements on the frequency of meetings, consultations to be held and rotation of membership.

18. OIOS reviewed the minutes and agenda for four meetings held, two each in 2012 and 2013, to assess whether the meetings were held according to the terms of reference. The compositions of the Advisory Group were also reviewed for the period 2009-2014 to determine whether the membership was rotated according to the terms of reference.

19. The audit results showed that the Advisory Group: (a) met twice per year as required; and (b) maintained timely minutes of meetings and prepared agenda that included discussions on the policies, prioritization and use of CERF funds; and (c) held consultations with members of the Inter-Agency Standing Committee. The members were rotated every three years with the Group at all times comprising 18 experts, 14 from Member States and four independent experts. Additionally, no United Nations agencies or international organizations that received funds from CERF were members of the Group. Deliberations at meetings were adequately communicated to the CERF secretariat through its Reporting and Information Unit. Based on the information reviewed, OIOS concluded that the Advisory Group worked according to its terms of reference to monitor and advise on CERF governance activities.

Funding targets were met and donor relationships maintained

20. The Secretary-General’s bulletin on the establishment and operation of CERF set an overall annual target of \$450 million for the grants element of CERF to be funded from voluntary contributions. The administrative instruction on the management of trust funds required an agreement to be established between the Organization and prospective donors. The Reporting and Information Unit of the CERF secretariat was responsible for engaging and reporting to donors.

21. OIOS reviewed the CERF secretariat’s Fundraising Strategic Plan and the Action Plan for the Reporting and Information Unit. Additionally, OIOS reviewed agreements with 10 donors contributing

\$635 million or 70 per cent of contributions for the period January 2012 to December 2013 to assess consistency in establishing the agreements, their terms and the CERF secretariat's compliance with the terms. The audit results showed the following diversity in types of donor agreements against which contributions were received by CERF: (a) pledge letters were used as agreements with five donors; (b) OCHA-prepared memoranda of understanding were used with two donors which were signed by both the United Nations Controller and the donor; and (c) donor-prepared memoranda of understanding were used with three donors which were signed by the donors and the United Nations Controller. This diversity could result in varied terms and reporting requirements, thereby increasing difficulty in complying with them. Since the CERF secretariat indicated that it had already developed a standard agreement template and encouraged certain donors to adopt it, OIOS made no recommendation on this issue.

22. The Reporting and Information Unit prepared a Strategic Plan and further developed an Action Plan for its fundraising activities. It implemented and monitored its fundraising activities through meetings and training activities with donors and recorded all donor contributions on the CERF website. For the years reviewed, the targets set for voluntary contributions from donors were achieved. Donors were engaged through donor meetings and correspondence between CERF and the donors. The CERF secretariat prepared an annual report on CERF activities, which was made available to donors on the CERF website. OIOS concluded that the CERF secretariat's fundraising activities were executed as planned and adequate donor relations were maintained.

Controls over the receipt and recording of funds from donors were adequate

23. The United Nations Financial Regulations and Rules provided instructions on the receipt and recording of funds at the United Nations. The Reporting and Information Unit and the Finance and Administration Unit within the CERF secretariat, as well as the Trust Fund Unit within OPPBA, had policies and procedures to receive and record donor funds.

24. OIOS reviewed contributions received from 10 donors to assess whether pledges were recorded and tracked and whether donations against the pledges were properly received and recorded in CERF. For the sample of donations reviewed, the audit results showed that the Reporting and Information Unit in the CERF secretariat monitored pledges, acknowledged receipt of donations from donors and updated the CERF website with amounts received. The Finance and Administration Unit within the CERF secretariat as well as the Trust Fund Unit within OPPBA recorded the contributions received. OIOS therefore concluded that controls over the receipt and recording of funds from donors were adequate.

Policies and procedures for project grant application and approval were established and complied with

25. The Secretary-General's bulletin on the establishment and operation of CERF specified the eligibility and applications procedures for the funds. In addition, the CERF secretariat issued policies and procedures on the application process, providing guidance to implementing partners and for the secretariat. The Programme Unit within the CERF secretariat was responsible for reviewing applications and submitting them to the Emergency Relief Coordinator for approval.

26. OIOS reviewed 42 projects valued at \$94 million or 10 per cent of the value of projects approved during the 2012-2013 period to assess whether the provisions in the Secretary-General's bulletin and the CERF policies and procedures for project application and approval were complied with. The audit results showed that: (a) the application process for CERF project grants complied with the established criteria; and (b) grant application files were routed for review and approval as required. OIOS therefore concluded that there were adequate controls over the project application and approval process.

Reporting and accountability mechanisms needed to be strengthened

27. General Assembly resolution 66/119 on strengthening coordination of emergency humanitarian assistance of the United Nations called upon the Secretary-General to set up appropriate reporting and accountability mechanisms to ensure that CERF funds were used in the most efficient, effective and transparent manner possible. The mechanisms established included the following:

(i) The Secretary-General's bulletin on the establishment and operation of CERF required Resident/Humanitarian Coordinators to oversee the monitoring of narrative reporting on projects funded by CERF. Implementing partners were required to communicate audit recommendations relating to CERF grants and their implementation status to OCHA;

(ii) The CERF Performance and Accountability Framework specified conducting three to five country-level reviews or evaluations per year to promote transparency, accountability and learning and to provide guidance on CERF strategic direction and performance; and

(iii) The standard letter of understanding between the CERF secretariat and the implementing partners specified that at agreed intervals, implementing partners were to prepare a summary of any internal audit reports related to CERF activities.

28. During the audited period, 16 United Nations agencies received CERF funding with total funding per agency ranging from \$270,433 to \$277 million. OIOS reviewed the monitoring, reporting, evaluation and audit activities related to CERF grants. Although the review of information available at the CERF secretariat offices did not indicate any concerns with the monitoring and narrative reporting processes, detailed evaluations and audits at the country level revealed some weaknesses. These are discussed below.

29. Upon OIOS request, the CERF secretariat obtained evidence of monitoring activities by four Resident/Humanitarian Coordinators for the period 2012-2013. These included project mission and monitoring visit reports from implementing partners. In addition, OIOS review of narrative reports of 42 projects indicated that they were submitted in a timely manner and reviewed by various units in the CERF secretariat to ensure that activities reported were in line with the project proposal. The narrative reports highlighted how CERF funds were utilized and the targets and outcomes achieved against project expectations. They were incorporated in the Resident/Humanitarian Coordinator reports, which were posted on the CERF website.

30. The CERF secretariat commissioned evaluations in 14 countries that received CERF funding and two evaluations were commissioned by implementing partners. OIOS reviewed four evaluation reports and noted that the CERF secretariat took action to implement the recommendations addressed to it and to track the implementation of others. However, while not making specific recommendations, two of the evaluation reports stated that: (a) the United Nations agencies conducted limited monitoring of project implementation. As projects were not monitored and reviewed, project reporting and accountability were weak; (b) information on CERF projects reported by the implementing partners were at times not verifiable; and (c) frequency of field visits varied depending on the distance and accessibility of projects and the United Nations agency's capacity and approach. These results indicated weaknesses in the mechanisms established by United Nations agencies to monitor and report on CERF-funded projects but it was not clear how the CERF secretariat assessed their significance and the need for any follow-up action at the policy or strategic level.

31. While no audits were conducted on the individual 42 projects selected for review, various United Nations agencies' external and internal audit reports highlighted issues that had relevance to humanitarian

programming and by extension to CERF projects, such as: (a) work performed by the implementing partners were not verified by the United Nations agencies; (b) the accountability for project implementation was not sufficiently captured due to lack of partner capacity assessment, assurance activities and spot checks on projects; and (c) project audits were not sufficiently scheduled by the United Nations agencies. The CERF secretariat indicated that it had not received notifications from its implementing partners on the audit observations as the audit reports were not specifically related to CERF activities.

32. Overall, the CERF secretariat stated that the CERF accountability framework anticipated that United Nations agencies would be fully responsible for implementing projects according to their regulations and rules and that the CERF secretariat was not mandated to set up additional monitoring mechanisms to oversee the agencies' systems. However, if appropriate action is not taken to address the above weaknesses highlighted by evaluations and audits, the CERF secretariat may not be able to substantiate its reporting on the use and impact of CERF funds.

(1) The Emergency Relief Coordinator should, in collaboration with the CERF secretariat, reassess the adequacy of the reporting and accountability mechanisms for CERF to ensure that they are effective in monitoring the use and impact of the funds.

The CERF secretariat accepted recommendation 1 and stated that it regularly reviewed the accountability framework and had introduced improvements since the period covered by the audit. The CERF secretariat believed that the current accountability framework adequately met the requirements of the Fund, but will nevertheless further assess the adequacy of the accountability mechanisms during the first half of 2016. Recommendation 1 remains open pending receipt of the results of the CERF secretariat's reassessment of the adequacy of the reporting and accountability mechanisms to ensure effective monitoring of CERF funds.

Action was taken to analyze and address delays by United Nations agencies to disburse grants to their implementing partners

33. The Secretary-General's bulletin on the establishment and operation of CERF required that grants for rapid response projects were implemented within six months following the disbursement of funds by the CERF secretariat. Grants for underfunded emergencies were to be implemented within nine months or by 31 December for first round allocations and 30 June for second round allocations. The letters of understanding between the United Nations and the United Nations agencies also stipulated the project implementation periods.

34. To assess the timeliness of United Nations agencies in disbursing project grants to implementing partners contracted by them and in completing projects, OIOS reviewed four independent evaluation reports and the four related Resident/Humanitarian Coordinator country reports on the use of CERF funds. These reports showed that disbursement of project grants by the United Nations agencies to their implementing partners was not always timely and was at times made late within the project implementation cycle. Following are examples of delayed payments in respect of rapid response and underfunded projects that were required to be implemented within six and nine months respectively:

(i) CERF grant of \$750,000 was received on 21 September 2011 by the concerned United Nations agency for an underfunded emergency project in the Philippines for implementation by 30 June 2012; however, the agreement between the United Nations agency and its implementing partner was signed only on 24 January 2012, and funds were disbursed between 27 April and 14 June 2012 (seven to nine months after the United Nations agency received the grants);

(ii) Funds of \$1 million for a rapid response project in the Democratic Republic of the Congo were disbursed by the CERF secretariat to a United Nations agency on 3 August 2012; however, disbursements were only made to the agency's three implementing partners between 18 January and 18 February 2013 (five to six months after). The Emergency Relief Coordinator granted a no-cost extension for the project until 30 April 2013 due to security and access constraints; and

(iii) A rapid response grant of \$305,350 for a project in Sudan was received by the United Nations agency on 27 August 2013, but the funds were transferred to the agency's two implementing partners only in January and February 2014, five to six months later.

35. With effect from 2013, the CERF secretariat introduced a new narrative reporting framework that required United Nations agencies to provide detailed information on the use of CERF funds, including engagement and disbursement of funds to their implementing partners (sub-grants). The secretariat analyzed the 2013 information in terms of: (i) implementation speed (number of working days from receipt of funds by United Nations agencies to start of sub-granting activities); and (ii) disbursement speed (number of working days to disbursement of the first instalment of the sub-grant). The analyses showed that while sub-granting activities started within one month for almost 50 per cent of sub-grants, activities for 25 per cent started four or more months after the United Nations agencies had received funds from CERF. Instalment payments for approximately 35 per cent of rapid response sub-grants and 59 per cent of underfunded emergencies sub-grants commenced four or more months after receipt of funds by United Nations agencies. The report indicated however, that some implementing partners pre-financed activities such that disbursement delays did not always lead to delays in implementing the projects.

36. The report listed a number of initiatives to be implemented to improve timeliness of disbursement of sub-grants, and it was expected that efficiency gains would begin to become evident from 2016. The report was shared and discussed with the CERF Advisory Group, recipient agencies, the Inter-Agency Standing Committee Humanitarian Financing Task Team and key donors to CERF. Based on the action taken by the CERF secretariat, OIOS did not make a recommendation on this issue.

CERF secretariat needed to resolve overdue financial reporting by implementing partners

37. The Secretary-General's bulletin on the establishment and operation of CERF, stipulated that final financial reports for each grant were to be submitted to the Controller by 30 June of the year following disbursement. Grant recipient organizations should return the unencumbered balance for each grant whose implementation period had expired, as well as any remaining unspent funds with the final financial report for that grant.

38. CERF records showed that implementing partners did not submit final financial reports to account for amounts ranging from \$3 million to \$18.5 million relating to 27 of the 42 projects reviewed. Overall, as at 31 December 2013, final financial reports were overdue for disbursements amounting to \$40 million. This included reports on approximately 205 projects that were outstanding since 2011 and 2012 relating to \$10 million. Without the final financial reports, the CERF secretariat would not be able to ascertain whether the implementing partners had spent the amounts or any unspent funds were to be returned to CERF.

39. The CERF secretariat explained that both the secretariat and the Accounts Division of OPPBA regularly followed up on the submission of final financial reports by implementing partners, and that those shown as outstanding may be due to errors in the accounting records.

(2) The CERF secretariat should review and reconcile its accounting records and follow up any overdue final financial reports from implementing partners or recover the unencumbered/unspent amounts from them.

The CERF secretariat accepted recommendation 2 and stated that it had been reconciling its accounting records and following up on overdue final financial reports from implementing partners. The secretariat aimed to further strengthen these processes and recover any unencumbered/unspent amounts from implementing partners. Recommendation 2 remains open pending receipt of the results of the CERF secretariat's reconciliation process and evidence that the secretariat has corrected errors in the accounting records, received overdue financial reports or recovered unencumbered/unspent amounts from implementing partners.

IV. ACKNOWLEDGEMENT

40. 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 management of the Central Emergency Response Fund in the Office for the Coordination of Humanitarian Affairs

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The Emergency Relief Coordinator should, in collaboration with the CERF secretariat and the Resident/Humanitarian Coordinators, reassess the adequacy of the reporting and accountability mechanisms for CERF to ensure that they are effective in monitoring the use and impact of the funds.	Important	O	Receipt of the CERF secretariat's reassessment of the adequacy of the reporting and accountability mechanisms to ensure effective monitoring of CERF funds.	30 June 2016
2	The CERF secretariat should review and reconcile its accounting records and follow up any overdue final financial reports from implementing partners or recover the unencumbered/unspent amounts from them.	Important	O	Receipt of the results of the CERF secretariat's reconciliation process and evidence that the secretariat has corrected errors in the accounting records, received overdue financial reports or recovered unencumbered/unspent amounts from implementing partners.	31 December 2016

² Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

³ Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or 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.

APPENDIX I

Management Response

OFFICE FOR THE COORDINATION OF HUMANITARIAN AFFAIRS

TO: Ms. Muriette Lawrence-Hume, Chief,
A: New York Audit Service, Internal Audit Division
Office of Internal Oversight Services, OIOS

DATE: 18 December 2015

REFERENCE:

FROM: Stephen O'Brien, Under-Secretary-General for Office
DE: for the Coordination of Humanitarian Affairs, and
Emergency Relief Coordinator

*for CERF
22 Dec. 2015*

SUBJECT: **OCHA comments on OIOS draft audit report AN2014/590/05 – “Audit of the
OBJET: management of the Central Emergency Response Fund”.**

1. This is in reference to your memorandum dated 14 December 2015, transmitting the draft audit report “Audit of the management of the Central Emergency Response Fund in the Office for the Coordination of Humanitarian Affairs (Assignment No. AN2014/590/05)”.
2. I take note of the “partially satisfactory” rating with two recommendations, indicating that while CERF is performing well, there is room to improve.
3. In this regard, I am enclosing Appendix I as OCHA’s comments on the recommendations contained in the report.
4. Please contact my office should you need any additional clarification.

Cc: Ms. Gwi-Yeop Son
Mr. Barnaby Jones

Management Response

Audit of the management of the Central Emergency Response Fund in the Office of the Coordination of Humanitarian Affairs

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Emergency Relief Coordinator should, in collaboration with the CERF secretariat and the Resident/Humanitarian Coordinators, reassess the adequacy of the reporting and accountability mechanisms for CERF to ensure that they are effective in monitoring the use and impact of the funds.	Important	Yes	Chief, Performance, Monitoring and Policy Section, CERF secretariat	30 June 2016	The CERF secretariat regularly reviews its accountability framework and has introduced improvements since the period covered by the audit. The CERF secretariat believes that the current accountability framework adequately meets the requirements of the Fund, but will nevertheless during first half of 2016 further assess the adequacy of accountability mechanisms, specifically bearing in mind the findings of this audit.
2	CERF secretariat should review and reconcile its accounting records and follow up any overdue final financial reports from implementing partners or recover the unencumbered/unspent amounts from them.	Important	Yes	Chief, Finance and Administration Section, CERF secretariat	31 Dec 2016	The CERF secretariat has been reconciling its accounting records and following any overdue financial reports. The CERF secretariat aims to further strengthen review and reconciliation of its accounting records and follow-up of any overdue final financial reports from implementing partners or recover the unencumbered/unspent amounts from them by Dec. 2016.

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.