



INTERNAL AUDIT DIVISION

REPORT 2016/184

Joint audit of the governance arrangements of the South Sudan Common Humanitarian Fund

Internal controls, governance and risk management processes of the Fund were generally established and functioning but needed improvement

28 December 2016

Assignment No. AN2015/590/07

JOINT AUDIT

OF THE GOVERNANCE ARRANGEMENTS

OF THE SOUTH SUDAN COMMON HUMANITARIAN FUND

Report No. 1558

Issue Date: 28 December 2016

Table of Contents

Executive Summary	i
I. About the South Sudan Common Humanitarian Fund	1
II. Audit results	1
A. Governance documentation	3
B. System of accountability	4
C. Resource mobilization	6
D. Funds management	7
E. Narrative reporting	7
Definitions of audit terms - ratings and priorities	9

Report on the Joint Audit of the Governance of the South Sudan Common Humanitarian Fund Executive Summary

The internal audit services of four of the United Nations organizations involved in the South Sudan Common Humanitarian Fund (CHF) activities – the Office of Internal Oversight Services (OIOS) of the United Nations; the Office of Audit and Investigations of the United Nations Development Programme (OAI); the Office of Audit and Investigation Services of UNFPA (OAIS); and the Internal Audit and Investigations Group of UNOPS (IAIG), collectively referred to herein as the “internal audit services” or “the joint audit team”, conducted a joint audit of the governance arrangements of the South Sudan CHF, with a field mission from 30 November to 7 December 2015. The joint audit team covered the governance arrangements of the CHF from 1 January 2014 to 30 September 2015.

The CHF’s governance arrangements comprised:

- a) the Humanitarian Coordinator (HC), who leads and coordinates the management of the CHF;
- b) the South Sudan CHF Advisory Board, which provides guidance to the HC in the management of the CHF; and
- c) the joint OCHA-UNDP Technical Secretariat, which is headed by United Nations Office for the Coordination of Humanitarian Affairs (OCHA). The Secretariat falls under the supervision of the HC with the mandate to ensure the adequate and efficient management of the CHF.

The audit aimed to assess the adequacy and effectiveness of the governance arrangements and the documents in place to establish the basis for the CHF and provide strategic direction, risk management and key control processes to achieve the CHF programmatic and operational results.

The audit reviewed the key documentation and functions as described below:

- Governance documentation
- System of Accountability
 - Assessment and selection of Non-Governmental Organization (NGO) implementing partners
 - Risk management
 - Evaluation
 - Monitoring of results by Priority Clusters, Participating United Nations Organizations (PUNOs), NGO implementing partners
 - Project auditing
- Project extensions and closure
- Reserve allocation process
- Resource mobilization
- Funds management
- Narrative reporting

The audit was conducted in accordance with the Framework for Joint Internal Audit of United Nations Joint Activities endorsed in September 2014 by the United Nations Representatives of Internal Audit Services (UN-RIAS), and in conformance with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors. These Standards require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of governance, risk management and control processes related to the audited activities. The audit included reviewing and analyzing, on a test basis, information that provides the basis for the conclusions and audit results.

Previously, OAI of UNDP conducted the audits of the Administrative Agent function of the South Sudan CHF, fulfilled by the Multi-Partner Trust Fund Office in New York (OAI report no. 1494 published 4 September 2015), and the Managing Agent function of the South Sudan CHF (OAI report no. 1546 published 16 October 2015). Similarly, OIOS of the United Nations audited the operations of the OCHA in South Sudan (OIOS report no

2016/038 published 29 April 2016). The current audit was the first joint audit of the governance arrangements of the CHF.

As envisioned in the Framework for Joint Internal Audits of United Nations Joint Activities, a consolidated audit report will later be issued. It will include the results of the internal audits carried out at the level of each PUNO, as well as the present audit of the CHF governance.

Overall audit rating

The joint audit team assessed the governance arrangements of the CHF 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 due to: incomplete risk mitigation process; governance documentation that lacked clarity; incomplete records and sharing of information that can restrict the work of the joint Technical Secretariat; and a lack of data quality assurance in the consolidation of narrative reports.

Key recommendations: Total = 4

There are four medium (important) priority recommendations, which means "Action is required to ensure that the governance of the CHF is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for the CHF."

The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	3	Medium (important)
Reliability and integrity of financial and operational information	2, 4	Medium (important)
Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium (important)

For three other issues identified, no recommendations are included in the present report, as these have already been covered in separate audit reports related to the CHF that were issued by the internal audit services of the concerned Participating UN Organization.

Management comments and action plan

The Humanitarian Coordinator accepted all of 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.

“Signed”

Helge S. Osttveiten
Director
Office of Audit and Investigations
UNDP

Eleanor T. Burns
Director
Internal Audit Division
Office of Internal Oversight Services
United Nations

Fabienne Lambert
Director
Office of Audit and Investigation Services
UNFPA

Paul Lucas
Director
Internal Audit and Investigations Group
UNOPS

I. About the South Sudan Common Humanitarian Fund

The Republic of South Sudan has experienced multiple crises since its independence in 2011, including the conflict that escalated into a new outbreak of civil war in December 2013. Since December 2013, 1.7 million persons became internally displaced and 1.05 million sought refuge in neighboring countries. By July 2015, about eight million persons were identified as food insecure and over 166,000 civilians had sought safety in six Protection of Civilians sites located in the United Nations Mission in the Republic of South Sudan bases. In addition to the violence and food insecurity, challenges with flooding, cholera and malaria also contributed to making the humanitarian situation very dire. The Emergency Relief Coordinator (ERC) designated the South Sudan crisis as a Level 3 Emergency Response in February 2014, and it remained at that level as of the audit date.

The Humanitarian Response Plan (HRP) outlines annual strategic, programmatic and operational goals for the delivery of humanitarian and emergency assistance in South Sudan and includes cluster strategies, objectives and indicators to measure progress and a selection of supporting humanitarian projects.

A Common Humanitarian Fund was established in February 2012 by the ERC to support the timely allocation and disbursement of donor resources to critical humanitarian needs in South Sudan. The CHF is a country-based pooled fund (CBPF) mechanism that operates under the overall authority of the HC, and is intended to support national and international NGOs and United Nations agencies providing humanitarian assistance to persons in need in a strategic and timely manner.

Total appeals for the South Sudan HRP in 2014 and 2015 amounted to \$1.8 billion and \$1.6 billion, respectively. For 2014, \$1.59 billion (88 percent) of the HRP appeal was funded while for 2015, \$1.08 billion (66 percent) of the appeal was funded. Funding for the CHF, which is the focus of this report, decreased from \$129 million in 2014 to \$99 million in 2015.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) System of accountability – evaluation: The requirements for evaluation of the CHF were met within the prescribed timeframe.
- (b) Reserve allocation process: The reserve allocations in 2014 exceeded the threshold of 20 percent as stated in the CHF Terms of Reference (TOR), and in 2015 they fell below 20 percent of all allocations. The Policy Instruction for OCHA's CBPFs from 5 February 2015 does not identify a threshold for reserve allocations.

The joint audit team made four recommendations ranked medium (important) priority.

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

Medium (important) priority recommendations, arranged according to significance:

- (a) The Humanitarian Coordinator, in consultation with the Advisory Board, and with support from the OCHA Country Office and the joint OCHA-UNDP Technical Secretariat, should complete the risk mitigation process (Recommendation 3).
- (b) OCHA, in consultation with PUNOs, should leverage the ongoing development of the new Operations Manual (Recommendation 1).
- (c) The Humanitarian Coordinator should instruct the joint OCHA-UNDP Technical Secretariat to improve the management and sharing of records and filing system of capacity assessment reports and external project audit reports for the Non-Governmental Organizations (Recommendation 2).

- (d) The Humanitarian Coordinator, with support from the joint OCHA-UNDP Technical Secretariat, should ensure quality and accuracy of the information reported to stakeholders on the South Sudan humanitarian response (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance documentation

Issue 1 Need to clarify the role of the South Sudan CHF Advisory Board in the reserve allocations process

The South Sudan CHF TOR provide for an Advisory Board to advise and support the HC in his or her role to oversee and coordinate the projects and operations of the CHF.

The audit noted that responsibilities of the Advisory Board were clarified with a sufficient level of detail in a new CHF Advisory Board TOR finalized in November 2015 and a new Operations Manual (the Manual), which was under finalization at the time of writing this report, except as regards the role of the Advisory Board in the CHF reserve allocation process.

The TOR of the CHF Advisory Board broadly indicates that the role of the Advisory Board is to participate during the development of allocation strategies, at cluster defenses, and at any other stage as may be required by the HC, but does not elaborate on the Advisory Board's role in the reserve allocations process. Further guidance is provided in the Manual, which indicates that the HC is, in general, expected to consult the Advisory Board with regard to the CHF reserve allocations process. The Manual does not, however, reflect the more detailed guidelines outlined in the Protocol for CHF Reserve Allocation Modality (the Protocol) which, according to management, was introduced in July 2015 with the aim of providing clarity in relation to reserve allocations. The Protocol makes consultation of the Advisory Board mandatory, when certain thresholds of allocations are exceeded. Further, the indicative workflow for a typical reserve allocation process included in the Manual as an annex omits any reference to the Advisory Board, creating further ambiguity on the exact nature of its role in the reserve allocations process.

The audit notes that the reserve allocations were reviewed for the period in scope and no reportable issues were identified.

Priority	Medium (Important)
Recommendation 1:	
OCHA, in consultation with PUNOs, should leverage the ongoing development of the new Operations Manual to clarify the nature and extent of consultation required of the Advisory Board in the CHF reserve allocations process, including the situations where consultation is mandated, in line with the July 2015 Protocol.	
Management action plan:	
The draft Operational Manual, under article 27, upholds the principle established under the Protocol of July 2015 that the Advisory Board will be consulted on any reserve allocations except in the most extraordinary of circumstances where such consultation would be impractical, or would significantly delay the decision making process. The process of completion of the new Operational Manual and its annexes will be used to highlight the guidance set out in the July 2015 Protocol on the role of the Advisory Board in the reserve allocations process.	
Estimated completion date: January 2017	

B. System of accountability

Issue 2 Incomplete records and sharing of information restrict the work of the joint Technical Secretariat

The CHF TOR establish both individual and joint responsibilities for OCHA and UNDP, which serve as the Managing Agent for NGO projects in the joint OCHA-UNDP Technical Secretariat, under the overall leadership of the HC. One of the overarching and joint responsibilities of the Managing Agent is to support the South Sudan CHF project cycle from the launch of the allocation until the project closure. In order to better support the joint tasks, critical information should be shared and managed in a way that is commensurate with the responsibilities entrusted to both organizations.

The audit team noted that there were outdated records and an inadequate filing system of capacity assessments at the joint Technical Secretariat, as well as assessments conducted by the Managing Agent. The audit also noted that capacity assessment reports of NGO implementing partners conducted by other United Nations agencies under the Harmonized Approach to Cash Transfer (HACT) Framework were shared with the Managing Agent. However, there were instances where the capacity assessments conducted by one United Nations agency were not readily available for sharing with another United Nations agency, a situation which gave rise to plans to develop an interactive HACT database where each agency can upload the reports concerning development partners (micro-assessments, spot check and audit).

The audit also noted that the Managing Agent had not implemented a formal process to share the external audit reports of the projects implemented by its NGO implementing partners, even though the joint Technical Secretariat needed such information to update and manage its Partner Performance Index. This index is a tool used by staff of the Technical Secretariat to help them provide clearance for project proposals, for further endorsement by the Advisory Board and approval by the HC. The staff member from the Managing Agent assigned to work at the joint Technical Secretariat, who is not always co-located with staff from OCHA, provided the opinions of the audit reports, but the reports, or summaries of the reports and of the audit opinions, were not available at the joint Technical Secretariat for others to use.

Incomplete records, an inadequate filing system, and an absence of formal channels to share the results of audit information can, collectively, hinder the work of the joint Technical Secretariat.

Priority	Medium (Important)
Recommendation 2:	
The Humanitarian Coordinator should instruct the joint OCHA-UNDP Technical Secretariat to improve the management and sharing of records and filing system of capacity assessment reports and external project audit reports for the Non-Governmental Organizations.	
Management action plan:	
The joint Technical Secretariat will work to establish arrangements for the improved management, archiving and sharing of these records.	
Estimated completion date: December 2016	

Issue 3 Incomplete risk mitigation process

Section 4.2 of OCHA’s Operational Handbook for CBPF establishes risk management as essential to making strategic decisions in order to maximize the ability of CBPFs to achieve their objectives. It also sets out the methodology a CBPF should employ to establish and maintain an effective Risk Management Framework. This requirement applies to the South Sudan CHF, given that it is a pooled financing mechanism to address critical humanitarian interventions.

The South Sudan CHF has had a Risk Management Framework in place since February 2015. The framework is in general alignment with the requirements of OCHA’s Operational Handbook for CBPF. Section 7 of the South Sudan CHF’s Risk Management Framework establishes an action plan in order to address or mitigate the risk identified in the Framework.

The action plan includes 17 risk mitigation measures. The joint audit team observed, however, that 7 out of 17 risk mitigation measures, related to monitoring and reporting, adherence to policies and decisions, resource acquisition, communications, coordination with donors, coordination with partners, and seasonality, had not been fully implemented.

Without fully implementing and maintaining risk mitigation measures relevant to all 17 risks identified in the framework, the CHF may be vulnerable to adverse outcomes in the areas for which risks have not been fully mitigated.

Priority	Medium (Important)
Recommendation 3:	
The Humanitarian Coordinator, in consultation with the Advisory Board, and with support from the OCHA Country Office and the joint OCHA-UNDP Technical Secretariat, should complete the risk mitigation process and update the risk treatment table in the Risk Management Framework.	
Management action plan:	
The Risk Management Framework will be reviewed and updated to reflect progress in implementation of mitigation measures as well as further actions needed.	
Estimated completion date: December 2016	

Issue 4 CHF monitoring system not streamlined

According to the CHF TOR, the HC has the overall responsibility to ensure that sufficient monitoring, reporting and evaluation mechanisms are put in place to support the implementation of the CHF. This work is to be coordinated and facilitated by the joint OCHA-UNDP Technical Secretariat on behalf of the HC. CHF monitoring and reporting will be guided by an inter-agency framework, which had not been developed as of the audit.

In the review of the existing monitoring system managed at the cluster level, the joint audit team noted the following shortcomings:

- The inter-agency Monitoring and Reporting Framework had not been finalized.
- Limited capacity for adequate monitoring of the CHF. For instance, at the time of the audit, 2 of the 8 posts had become vacant due to contract expiration, and the duration of the contracts, which were short-term, posed a challenge for building institutional capacity within the joint Technical Secretariat.
- Absence of qualitative indicators to measure performance.

- Limitations to monitor CHF programmatic results. For example, it was unclear how the monitoring of the project outputs contributed to meet the specific objectives identified by each cluster in the clusters' Allocation Strategy and the general objectives in the Allocation Strategy Paper.
- Lack of a follow-up system on recommendations, which is envisioned as a module in the Grant Management System.

Gaps in monitoring practices can prevent the achievement of the CHF objectives and the efficient and effective use of funds by not identifying, in a timely manner, areas where remedial action must be taken.

Since the audit fieldwork, the joint Technical Secretariat indicated that several improvements have taken place to address challenges in the area of monitoring.

Comment

In its audit report on the operations of OCHA in South Sudan (OIOS report no 2016/038 published 29 April 2016), OIOS of the United Nations identified this as an area that warranted improvement and recommended that the OCHA Country Office, in collaboration with the HC, establish a mechanism to document regular project monitoring and oversight activities. Therefore, no recommendation is being issued in this report.

C. Resource mobilization

Issue 5 Absence of a resource mobilization strategy

Section 2.3 of OCHA's Operational Handbook for CBPF requires that a resource mobilization strategy is formulated, addressing fundraising targets and analyses, communications, donor outreach and engagement, and reporting. A key component of effective resource mobilization is fostering a diversified portfolio of donors and contribution types.

The audit team observed that a formal and finalized strategy for resource mobilization for the CHF was not in place.

Further, the joint audit team observed the following:

- Total contributions decreased from \$129 million in 2014 to \$99 million in 2015 (by \$30 million or 23 percent).
- Of the cumulative total contribution to the CHF of \$470 million since 2012, 47 percent (or \$222 million) had been contributed by the United Kingdom, 17 percent by Sweden (\$79 million), 10 percent by the Government of the Netherlands (\$46 million) and 9 percent by the Government of Norway (\$41 million). The remaining 17 percent had been contributed by eight donors, each contributing, over the life of the fund, no more than 5 percent of the total.

Comment

OIOS of the United Nations conducted an audit of resource mobilization in OCHA (OIOS report no 2016/090 published 23 August 2016), which recommended a coordinated and comprehensive resource mobilization strategy for CBPFs. Therefore, no recommendation is being issued in this report.

D. Funds management

Issue 6 Lack of processes, metrics and documentation for tracking funds disbursed to NGOs

Section 3.1, paragraph 106 of OCHA's Operational Handbook for CBPF requires that, "[f]ollowing the signature of the grant agreement by all parties (the last signatory being the holder of the delegation of authority in OCHA headquarters), funds are disbursed within 10 working days."

The joint audit team observed that the timing and duration of funds disbursement activities are not collectively tracked by those involved in the CHF (the HC, the joint Technical Secretariat, the Administrative Agent, and the Managing Agent). While the Grant Management System (GMS) used by the joint Technical Secretariat has the capacity to track disbursement timelines, this module in the GMS has not been activated. Further, from the sample of disbursements tested, the audit team observed the following processing times:

- 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, with an average of 8 days;
- 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;
- 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; and
- Days to disburse the initial advance to the implementing partners that had not undergone a capacity assessment took an average of 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.

While the CHF itself is not directly responsible for all stages of the funds disbursement timeline, having a good understanding of the practical process flow of how these occur, and an appropriate monitoring mechanism in place, is an integral part of the funds management process and could provide important information to decision-makers. An understanding of disbursement timelines is particularly important when conducting reserve allocations, which generally arise from genuine exigencies and require swift action.

Moreover, the audit identified a lack of workload norms, particularly pre-defined expected funds disbursement timelines. Well-defined workload norms, combined with an effective monitoring system, can help the South Sudan CHF assess current performance against desired performance and contribute to the rapid disbursement of critical funding.

Comment

OAI of UNDP raised this issue with a high-priority recommendation in the audit report of the South Sudan CHF Managing Agent (UNDP OAI audit report no. 1546, published on 16 October 2015), therefore no recommendation is being made in this report.

E. Narrative reporting

Issue 7 Lack of quality assurance in data contained in the narrative reports from implementing partners

The CHF TOR establishes that the HC, supported by the joint OCHA-UNDP Technical Secretariat, will provide to CHF donors, the CHF Advisory Board, PUNOs and other relevant stakeholders regular consolidated progress

reports, including an Annual CHF Report, on the impact of the CHF on the humanitarian situation and response in South Sudan. The reporting frequency and timeframes will be specified in the Monitoring and Reporting Framework. Following this, NGO implementing partners were required to submit quarterly narrative reports, including quantitative data on project implementation, while PUNOs and the International Organization for Migration (IOM) submit annual and final narrative reports for each project.

The joint audit team noted that the consolidation of narrative reports from NGO implementing partners, PUNOs and IOM was based on their periodic self-reporting with no defined quality assurance mechanism to ensure data quality. Although the Clusters' Monitoring and Reporting Specialists reviewed and ensured the consistency of the information reported, the narrative reports did not provide adequate content to convey to the reader that the use of resources from the CHF were being used in an effective way.

Lack of quality assurance of the information reported in the consolidated progress report as well as in the Annual CHF Report may give rise to the risk of reporting inaccurate information to stakeholders and lead to incorrect decision-making.

Priority	Medium (Important)
Recommendation 4:	
The Humanitarian Coordinator, with support from the joint OCHA-UNDP Technical Secretariat, should ensure quality and accuracy of the information reported to stakeholders on the South Sudan humanitarian response.	
Management action plan:	
The CHF Technical Secretariat will review the process of consolidation and review of narrative reports submitted by partners to ensure quality and accuracy.	
Estimated completion date: 4 th quarter 2016	

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 CHF is not exposed to high risks. Failure to take action could result in major negative consequences for CHF.
- **Medium (Important)** Action is required to ensure that CHF is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for CHF.
- **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.