



## INTERNAL AUDIT DIVISION

### REPORT 2014/104

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Audit of the Office for the Coordination of Humanitarian Affairs operations in Pakistan

Overall results relating to the audit of the Office for the Coordination of Humanitarian Affairs operations in Pakistan were initially assessed as unsatisfactory. Implementation of two critical and three important recommendations remains in progress.

**FINAL OVERALL RATING: UNSATISFACTORY**

24 October 2014

Assignment No. AN2013/590/03

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# **AUDIT REPORT**

## **Audit of the Office for the Coordination of Humanitarian Affairs operations in Pakistan**

### **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Office for the Coordination of Humanitarian Affairs (OCHA) operations in Pakistan.
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. OCHA supported the Resident Coordinator/Humanitarian Coordinator and the Humanitarian Country Team to provide effective and principled humanitarian action in Pakistan. OCHA core functions in Pakistan included operational coordination, humanitarian financing, advocacy and information management. The Humanitarian Country Team worked with the Government of Pakistan to increase its ability to respond to humanitarian crises and find longer term mitigating solutions. Eleven United Nations agencies and 33 non-governmental organizations (NGOs) were actively involved in humanitarian response activities and were working within an inter-agency coordination forum supported by OCHA.
4. Two OCHA-managed funds: (a) Emergency Response Fund (ERF); and (b) Central Emergency Response Fund (CERF) were operational in Pakistan for providing life-saving assistance following a humanitarian crisis.
5. Total actual ERF allocations during 2012-2013 amounted to US\$14.6 million. The funds supported 86 projects designed to provide food, water, sanitation, health care, shelter, education, nutrition, protection, community restoration, agriculture and livestock to five million people. The majority of ERF recipients were NGO partners, and national NGOs received approximately 93 per cent of the funds. As there was no consolidated funds appeal mechanism in Pakistan, ERF remained crucial in providing funds to bridge humanitarian gaps in the country.
6. CERF was disbursed under two windows, namely, rapid response and underfunded. Following a disaster, the Resident Coordinator/Humanitarian Coordinator made a CERF application under the rapid response window for humanitarian funding for priority, life-saving activities to the United Nations agencies. Decisions on prioritizing life-saving activities were managed by humanitarian actors on the ground. Approximately US\$50.63 million of CERF allocations were made to Pakistan during 2012-2013 as of 30 October 2013 through 11 United Nations agencies supporting a total of 73 projects.
7. The OCHA Executive Office in New York and the Administrative Services Branch in Geneva provided support services to the OCHA Country Office in Pakistan. The CERF secretariat, the Coordinated Response Division, and the OCHA Office in Geneva provided substantive guidance. The OCHA Country Office in Pakistan received budgetary allocations from the Disaster Relief Trust Fund and programme support costs. Table 1 provides the 2012-2013 cost plans and 2013 staffing of the OCHA Country Office in Pakistan.

**Table 1: 2012-2013 cost plans and 2013 staffing of the OCHA Country Office in Pakistan** (in United States dollars)

Year	Disaster Relief Trust Fund	Programme Support Costs	Total
2012	7,595,503	381,942	7,977,445
2013	7,172,936	367,914	7,540,850
<b>Total</b>	<b>14,768,439</b>	<b>749,856</b>	<b>15,518,295</b>
<b>2013 Total Posts</b>	<b>72</b>	<b>4</b>	<b>76</b>

8. The OCHA Country Office was in Islamabad and field offices were located in Peshawar, Khyber Pakhtunkhwa; Quetta, Baluchistan; and Karachi, Sindh.

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

## II. OBJECTIVE AND SCOPE

10. 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 and efficient management of OCHA operations in Pakistan**.

11. The audit was included in the 2013 risk-based work plan due to the risks of: (i) inadequate coordination of the overall humanitarian activities because of the complexity of recurring emergencies and insecure operational environment; and (ii) inadequate monitoring of projects executed by implementing partners, potentially exposing OCHA to reputational and financial risks relating to the use of pooled funds.

12. The key controls tested for the audit were: (a) coordinated management; and (b) delegation of authority. For the purpose of this audit OIOS defined these key controls as follows:

(a) **Coordinated management** – controls that provide reasonable assurance that: (i) humanitarian needs for OCHA operations in Pakistan are assessed taking into consideration the risk environment in Pakistan and the availability of various sources of funding at the disposal of the Humanitarian Coordinator; (ii) coordinated programming of the humanitarian needs is undertaken with identification and allocation of necessary funding broken down into humanitarian response projects; (iii) the implementation of the projects is regularly monitored to obtain assurance that the funds are used for the intended purpose; and (iv) project performance, including financial performance, is monitored and reported on a timely basis.

(b) **Delegation of authority** – controls that provide reasonable assurance on the clarity of the authority, roles and responsibilities of OCHA organizational units for: (i) the delivery of the OCHA overall mandate in its operations in Pakistan; and (ii) the management of: (a) ERF funds under the delegated authority; (b) CERF funds under related United Nations administrative instructions; and (c) staff and other resources in the Country Office to ensure effective support to the delivery of humanitarian response and safeguarding of assets.

13. The key controls were assessed for the control objectives shown in Table 2. One control objective (shown in Table 2 as “Not assessed”) was not relevant to the scope defined for this audit.

14. OIOS conducted this audit from 17 October to 19 December 2013. The audit covered the period from 2012 to 2013.

15. 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

16. The OCHA governance, risk management and control processes examined were **unsatisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective and efficient management of OCHA operations in Pakistan**. OIOS made eight recommendations to address issues identified in this audit.

17. The OCHA Country Office in Pakistan had a comprehensive ERF resource mobilization strategy, even though the actual donor contributions were constrained by the lack of a humanitarian action plan in Pakistan since 2011 as the host government had not supported it. However, the key control of coordinated management was assessed as unsatisfactory because OCHA needed to develop standard operating procedures on the involvement of clusters in monitoring of and reporting on grants in order to operationalize the lessons learned initiative on developing a formal mechanism to monitor CERF projects. The process to assess the capacity of the ERF implementing partners was weak as it did not assess their human resources, financial management or organizational capability to implement humanitarian response projects. There were delays in the external audits of ERF projects, and a summary of the external audit observations was not submitted to the Advisory Board. OCHA also needed to develop an audit strategy that focused on high risk, high value and multiple project-recipient implementing partners instead of auditing all ERF projects.

18. The controls in the Country Office over monitoring individual budget lines against financial authorizations were adequate. Each organizational unit in the OCHA Country Office in Pakistan implemented an approved annual work plan with objectives, activities, indicators and timeline. However, the Country Office in Islamabad had limited office space to accommodate its staff. An updated inventory was necessary to identify lost, unserviceable or obsolete items and to initiate write-off and disposal action.

19. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **unsatisfactory** as implementation of two critical and three important recommendations remains in progress.

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<sup>1</sup> A rating of “**unsatisfactory**” means that one or more critical and/or pervasive important deficiencies exist 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.

**Table 2: 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
<b>Effective and efficient management of OCHA operations in Pakistan</b>	(a) Coordinated management	Unsatisfactory	Partially satisfactory	Not assessed	Unsatisfactory
	(b) Delegation of authority	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: UNSATISFACTORY</b>					

### **A. Coordinated management**

#### Controls over security risks were adequate

20. The United Nations Security Management Operations Manual required that security officials use the security risk management system to determine appropriate situation-specific procedures and measures for safety and security. In order to safeguard the safety and security of United Nations personnel in Pakistan, a programme criticality assessment was conducted in 2013. This assessment identified four levels of programme criticality: Level 1 being most critical and Level 4 being least critical. The United Nations agencies in Pakistan assessed the criticality of their activities in Pakistan as: none in Level 1; very few in Level 2; most in Level 3; and very few in Level 4. The programme criticality assessment was then associated with the security risk assessment of the locations where the activities were implemented. Accordingly, requests for security clearance of United Nations personnel were addressed to the Designated Official, clearly indicating the criticality of the programmes where United Nations personnel were located. Arrangements were then made for the safety and security of the United Nations personnel involved in the implementation of United Nations programmes in Pakistan.

21. The United Nations Department of Safety and Security in Pakistan conducted a Security Risk Assessment in October 2012 and April 2013. Both risk assessments included: (i) programme assessment; (ii) threat assessment; (iii) vulnerability assessment; (iv) security risk analysis; and (v) security risk management measures. The effectiveness of security controls and compliance with the security risk assessment process were tested and observed during the audit team’s fieldwork in Pakistan. OIOS therefore assessed that controls over security risk were adequate.

#### Formal mechanisms were necessary to monitor Central Emergency Response Fund projects

22. The CERF administrative instructions required Resident Coordinators or Resident/Humanitarian Coordinators to oversee the monitoring of, and narrative reporting on, projects financed by the Fund.

23. The Country Office received narrative reports on projects from the recipient United Nations agencies to prepare the consolidated annual narrative CERF report for the country. Although the requirements for the Humanitarian Coordinator’s annual narrative reporting on CERF projects were complied with, there were no particular mechanisms to support the monitoring part of the responsibility for the CERF projects. Moreover, the Performance Accountability Framework, an oversight mechanism called for by the CERF Advisory Group and developed by an independent consultant in consultation with

Inter-Agency Standing Committee partners, specifically stated that the OCHA country offices neither had the capacity nor the expertise to perform the role of a 'watch dog' in the monitoring of and reporting on CERF projects. This position was reaffirmed by the eligible organizations receiving CERF funds as well as by the OCHA Country Office in Pakistan during OIOS interviews. However, the standard Letter of Understanding with the eligible United Nations organization stated that "when deemed necessary by OCHA, and with prior consultation and agreement of the Eligible Organization on the Terms of Reference, OCHA may conduct on-site visits of projects financed by the Grant funds". OCHA affirmed that the United Nations agencies were expected to monitor their own projects. Therefore, there were no mechanisms within OCHA for providing assurance that funds were used for the intended purposes.

24. Due to the lack of a formal mechanism to monitor CERF projects, OCHA embarked on a lessons learned activity and developed recommendations in October 2013, which emphasized the involvement of clusters/lead agencies of humanitarian projects in the monitoring process. OCHA was identified as responsible for holding discussions with the CERF stakeholders and for conducting workshops and contextualizing and guiding the CERF process in a flowchart. On monitoring and reporting, the lessons learned document recommended that OCHA should: (a) continue to provide support where necessary, including preparing flowcharts to explain the process; and (b) continue to ensure compliance with reporting Guidelines by all actors.

25. At the time of audit, the OCHA Country Office in Pakistan had already prepared the flowchart and developed a template for the prioritization of CERF project proposals as part of the inter-cluster coordination mechanisms. However, OCHA was yet to prepare the standard operating procedures on the monitoring and reporting of projects to operationalize the lessons learned initiatives.

**(1) The Country Office in Pakistan should, with the support of the Central Emergency Response Fund Secretariat, prepare standard operating procedures on the involvement of clusters/lead agencies of humanitarian projects to complement the flowchart on the Central Emergency Response Fund process in order to strengthen support for the monitoring and reporting of projects.**

*OCHA accepted recommendation 1 and stated that following a review undertaken in the last quarter of 2013, OCHA Pakistan identified this issue as a priority and decided to outline a guidance process for the potential involvement of national level cluster coordinators in the development of the CERF prioritization, allocation and project development process. However, the Humanitarian Country Team deactivated the national level clusters in December 2013. Recommendation 1 remains open pending receipt of a copy of standard operating procedures on the involvement of lead agencies of humanitarian projects to monitor and report on CERF projects.*

The Country Office had a comprehensive resource mobilization strategy

26. One of the OCHA strategic objectives required that humanitarian financing was predictable, timely and allocated based on priority needs.

27. The Humanitarian Coordinator and the Head of the Country Office met regularly with the donor group and like-minded donors. The Humanitarian Coordinator had also been raising with host country government officials the need for the host country's support towards a consolidated humanitarian response plan. However, the Government of Pakistan did not endorse the launch of a consolidated appeal.

28. The Humanitarian Country Team in Pakistan was in the process of finalizing a draft of the Humanitarian Needs Overview to support a Strategic Response Plan for Pakistan in accordance with the new Humanitarian Programme Cycle rolled out by OCHA in late 2013. This overview was expected by the Humanitarian Country Team to serve as a basis to develop a consolidated humanitarian action plan to complement the existing resource mobilization strategy for humanitarian activities in Pakistan. Therefore, OIOS assessed that the controls over resource mobilization in the OCHA Country Office in Pakistan were adequate.

The process for assessing the capacity of Emergency Response Fund project implementing partners needed to be strengthened

29. According to ERF Guidelines, OCHA was required to assess whether ERF implementing partners demonstrated, amongst others: (i) proven ability to implement proposed activities; (ii) comparative advantage over other potential implementers, such as access, networks, capacities and resources; and (iii) ability to keep financial records in accordance with international accounting standards, with the accounts being audited at least once a year and published in an annual report.

30. During 2012-2013, 86 ERF projects totaling US\$14.6 million were awarded to international and national NGOs. A review of 30 ERF project proposals showed that the capacity assessment tool in use at the time of the audit was basic as it did not capture critical information on the financial management, human resources and organizational capability of implementing partners. Moreover, the capacity assessment was conducted as part of the review of project proposals, which precluded detailed analysis of critical capacity aspects of implementing partners.

31. A discussion with a number of implementing partners indicated their expectation that ERF grants would include a component to build their capacity to manage the ERF projects, which was contrary to the objective of ERF projects. This expectation from implementing partners only confirmed that the implementing partner selection process did not assure their readiness with the necessary experience, structure and resources to implement humanitarian response projects.

32. The operating environment in Pakistan provided limited choices on the selection of implementing partners particularly due to limitations related to access to the areas with the populations that needed emergency responses. The assessment process of implementing partners, therefore, needed to take into account risks related to those implementing partners who had to be selected within these limitations. On the other hand, the ERF Unit regularly conducted field monitoring of the ERF projects and prepared reports on such visits. During 2013 and 2012, the ERF Unit conducted 46 and 44 site visits respectively and issued project on-site monitoring reports. The monitoring reports described the status of the projects' programmatic implementation, highlighted deviations, if any, and explained the underlying reasons for identified deviations. In addition, each project was also audited after completion of project implementation.

33. However, the knowledge gathered on implementing partners from project field monitoring was not comprehensively used in assessing the capacity of relevant implementing partners for subsequent projects. According to OCHA, the existing process of assessing the capacity of implementing partners was limited to desk reviews of historical profiles, examinations of portfolios of previous projects and verifications of registration certificates with the Government of Pakistan. OCHA further indicated that a global policy was being developed to conduct systematic capacity assessments of implementing partners for all ERFs. This policy would be accompanied by the necessary tools to enable OCHA to manage partner-based risks, as well as to put in place a feedback system for implementing partners to foster capacity assessments.



**(2) The OCHA Country Office in Pakistan should strengthen the capacity assessment process by including an assessment of critical information on implementing partners and using relevant information gathered from project monitoring reports and audit observations.**

*OCHA accepted recommendation 2 and stated that a capacity assessment of implementing partners was one of the pillars of the Accountability Framework that was being launched jointly with the revised Country-Based Pooled Fund (CBPF) Guidelines at the end of 2014. Implementation had already begun for certain high-risk countries and would be progressively rolled out to all OCHA country operations in 2015. Recommendation 2 remains open pending receipt of the revised CBPF Guidelines on the capacity assessment of implementing partners.*

Initial payment of 80 per cent of approved Emergency Response project funds paid to implementing partners was treated as expenses

34. According to United Nations Financial Rules, approving officers were responsible for approving payments once they had ensured that they were properly due and confirmed that the necessary services, supplies or equipment had been received in accordance with the contract agreement, purchase order or other form of undertaking by which they were ordered. Furthermore, the standard Memorandum of Understanding (MOU) required implementing partners to refund any unspent balances of ERF allocations.

35. OCHA paid 80 per cent of approved ERF project funds to implementing partners on the date of signing the MOU and immediately treated each payment as an expense instead of waiting to receive narrative and financial reports from implementing partners indicating and substantiating how the funds had been utilized, and determining whether it was appropriate. This practice was not in compliance with the Financial Rules, which required confirmation that funds had been applied as required. It also reduced the incentive for implementing partners to submit reports since they had already received the bulk of funds. Of the 30 ERF projects selected for review, 23 projects had been completed by 30 June 2013 but external audit reports were only available for 10 projects at the time of the OIOS audit in November 2013. The practice also did not facilitate the recovery of unspent balances or ineligible expenditures.

36. The Administrative Services Branch (ASB) informed OIOS that beginning January 2014, the United Nations Controller instructed OCHA to treat grant payments to NGO-implementing partners as advances to conform to the recent practice of treating grant payments to the United Nations implementing agencies as advances.

**(3) OCHA should treat the initial payments of approved funds to implementing partners as receivables, which should be cleared upon receipt of the required reports from implementing partners.**

*OCHA accepted recommendation 3 and provided evidence that initial payments of approved funds to implementing partners had been treated as receivables since January 2014 with the implementation of the International Public Sector Accounting Standards. Based on the action taken by OCHA, recommendation 3 has been closed.*

Global Emergency Response Fund Guidelines needed revision on the financial monitoring of projects

37. In accordance with the Global ERF Guidelines, OCHA Country Offices were responsible for the daily management of financial and administrative activities of the ERF. According to OCHA, this

referred to activities such as preparation of MOUs, requests for transfers of funds, no-cost extensions and budget modifications; it did not include the monitoring of expenditures of each project.

38. Additionally, the Guidelines provided that "the ERF Manager shall develop and formulate a detailed monitoring and reporting plan for the ERF that outlines the strategy for monitoring performance and results". Accordingly, the ERF Unit prepared an annual project monitoring plan and conducted project visits. These monitoring visits were focused on the implementation of activities and outputs but not on reviewing financial performance of projects. The Global ERF Guidelines did not provide requirements for the financial monitoring of ERF projects. Most importantly, due to limited capacity, the ERF Unit did not monitor financial performance of ERF projects. It did not review the final financial reports, which were submitted to the ASB along with audit reports and used as the basis for releasing the residual 20 per cent of project allocations.

**(4) OCHA New York and the Administrative Services Branch in Geneva should: (a) ensure that the revised Global Emergency Response Fund Guidelines define financial monitoring; and (b) formulate a mechanism for Country Offices to effectively monitor financial performance of projects.**

*OCHA accepted recommendation 4 and stated that the revised CBPF Guidelines would define financial monitoring and formulate a mechanism for Country Offices to effectively monitor financial performance of projects. The revised Guidelines once finalized by the fourth quarter of 2014 would be progressively rolled out to all CBPFs by 30 June 2015. Recommendation 4 remains open pending receipt of the revised CBPF Guidelines defining financial monitoring and formulating a mechanism for country offices to effectively monitor financial performance of ERF projects.*

A system to summarize external audit observations of the Emergency Response Fund projects was not in place

39. In accordance with the Global ERF Guidelines, end-of-project reports, evaluation reports and audit findings were to be periodically summarized and presented to the ERF Advisory Board by the Humanitarian Coordinator, supported by Head of Office.

40. At the time of the audit in November 2013, the ERF Unit had received reports from external auditors for the audit of 10 projects. However, there was no system in place to summarize audit observations issued to implementing partners on ERF audits although, according to OCHA, the Country Office in Pakistan provided brief oral updates to the Advisory Board on the status/progress of audits. The ERF Advisory Board had not been provided with a summary of audit findings.

**(5) The OCHA Country Office in Pakistan should establish a system to summarize audit observations for consideration by the Advisory Board as required in the Global Emergency Response Fund Guidelines.**

*OCHA accepted recommendation 5 and provided evidence that the ERF Unit in Pakistan presented a summary of audit recommendations to the Advisory Board meeting in July 2014. Based on the action taken by OCHA, recommendation 5 has been closed.*

An assessment of the audit strategy for the Emergency Response Fund projects was needed

41. The Global ERF Guidelines required that each project be audited at least once during its life time. A review of the list of ERF implementing partners showed that the number of projects awarded to each implementing partner ranged between one and six projects in a year. Of the 75 implementing partners, 15 were awarded at least two projects during the 2012-2013 period.

42. The project audit strategy was costly as it resulted in 100 per cent coverage of all projects irrespective of their size, lifespan and level of risk. Furthermore, audit fees were paid per project audited rather than by the implementing partner's portfolio of projects. In 2012-2013, OCHA expended over US\$276,000 in external audit contracts for OCHA operations in Pakistan. A consideration of a risk-based audit approach would likely reduce costs and provide more effective and faster audit coverage.

**(6) OCHA should establish a risk-based audit strategy focusing on high risk, high value and multiple project-awardee implementing partners instead of auditing all Emergency Response Fund projects.**

*OCHA accepted recommendation 6 and stated that the revised Global CBPF Guidelines would introduce a comprehensive Accountability Framework that would include a more systematic approach to a risk-based management of implementing partners. In addition, OCHA would continue to explore the option of a partner and risk-based audit strategy focusing on high risk, high value and multiple project-awardee implementing partners instead of auditing all the projects funded by CBPFs. The strategy would be finalized and progressively rolled out by 30 June 2015. Recommendation 6 remains open pending receipt of the risk-based audit strategy for ERP projects.*

## **B. Delegation of authority**

Controls over individual budget lines against financial authorizations were adequate

43. The United Nations Finance and Budget Manual required expenses against financial authorizations to be properly recorded with appropriate documentation.

44. OIOS tested requests for payments, supporting vouchers and relevant financial authorizations against different budget lines in the financial records maintained at the Country Office for alternate months in 2012-2013. OIOS also noted that the ASB periodically reviewed the Country Office's use of individual budget lines against relevant financial authorizations.

45. During the 2012-2013, ASB issued financial authorizations totaling US\$6.5 million to the service provider's office in Pakistan to cover the salaries of the locally administered national staff and for the operating expenses of the OCHA Country Office in Pakistan. These authorizations were copied to the OCHA Country Office in Pakistan, which controlled expenditures against allotments at each budget line. Expenses on inter-office vouchers from the service provider were verified by the Country Office and reconciled with the financial authorizations. The audit team also visited the OCHA sub-office in Peshawar on 2 December 2013 and reviewed controls over the inventory, petty cash, and vacancy management, which were found to be satisfactory. OIOS concluded that the overall controls over charges against the financial authorizations were adequate.

#### Need to plan for potential office relocation

46. According to its Management Plan, OCHA was required to ensure improved staff welfare and their safety and security in order to reduce stress levels, especially in work situations involving extensive exposure to physical and psychological hardship.

47. The OCHA Country Office in Islamabad occupied a space on the second floor of the Serena Business Complex under an MOU with a service provider expiring on 31 December 2014. When the Office was established in 2009, OCHA requirements were related to an estimated 28 staff. These requirements increased to over 40 staff members as a result of the expansion of humanitarian activities in Pakistan since 2010. As a result, the individual work spaces were overcrowded, uncomfortable, and inadequate.

48. OCHA could not increase the space in the current location due to cost considerations, and also did not consider it feasible to find a new location due to security concerns and the need to be in close proximity with its provider of administrative and support services. The service provider was planning to relocate to the Diplomatic enclave in Islamabad after its lease expires on 31 December 2014. Given the adverse security environment in Pakistan, a move of the country office to a new location would require capital investments.

**(7) The OCHA Country Office in Pakistan should plan for adequate office space post 31 December 2014, taking into account that any decision to move to a new location entails proper physical security of the premises.**

*OCHA accepted recommendation 7 and stated that in February 2014, following a reduction in the rent, OCHA decided to remain in the Serena Building Complex after 31 December 2014 and signed a MOU with the service provider. However, OCHA did not yet identify adequate space for its staff in the Serena Business Complex. OIOS, therefore, reiterates recommendation 7, which will remain open pending submission of evidence that adequate office space is planned within the Serena Business Complex.*

#### Need for updating inventory records

49. According to the 2003 United Nations administrative instruction on Property Management and Inventory Control at the United Nations Headquarters, OCHA was responsible for: creating, maintaining and updating its property and inventory control records; labeling property; monitoring the movement of property; recommending the disposal of obsolete and unserviceable property; and conducting periodic physical inventories during each biennium. As shown in Table 3, the OCHA Office in Pakistan had a non-expendable inventory of US\$1.5 million as of 31 October 2013. This inventory included in-kind contributions of properties worth US\$111,030 which the Country Office retained as donation.

**Table 3: Summary of non-expendable property** (in United States dollars)

<b>Property</b>	<b>Value</b>
Information Technology Equipment	\$ 385,336.44
Communication Equipment	99,758.50
Transport Equipment	758,600.00
Generators	56,261.43
Office Furniture	54,151.50
Other Equipment	34,118.43
<b>Total</b>	<b>1,388,226.30</b>
In-Kind Donation	111,030.56
<b>Grand Total</b>	<b>\$ 1,499,256.86</b>

50. Vehicles, office furniture, and electronic equipment were assigned to different staff members and offices, and unused inventory items were stored in three containers in a warehouse located about 40 kilometers away from the Country Office in Islamabad. OIOS tested the inventory of vehicles, office furniture, and electronic equipment and printers selected at random from the 31 October 2013 inventory report with the following results:

(a) OCHA had a fleet of 11 vehicles worth US\$758,600. OIOS located all these vehicles, including one 2005 Volkswagen minibus worth US\$24,000, that was not in running condition. The OCHA Country Office indicated that the vehicle was not repaired because of the unavailability of spare parts; and

(b) One hundred forty-eight mobile phones were recorded as in ‘Good’ condition. One hundred and nineteen of the phones, which were worth US\$20,000, were assigned to different staff members. OCHA explained that many of the cell phones were very old and carried almost no market value.

51. Controls over inventory in the Peshawar sub-office were satisfactory.

52. In its annual inventory reports to the ASB Geneva, the OCHA Country Office in Pakistan did not initiate write-off and disposal actions for lost, unserviceable, obsolete or abandoned items retained in the OCHA inventory.

**(8) The OCHA Country Office in Pakistan should update its inventory records and initiate write-off and disposal actions for lost, unserviceable, or obsolete inventory items as required by the administrative instruction on Property Management and Inventory Control at United Nations Headquarters.**

*OCHA accepted recommendation 8 and stated that OCHA Pakistan initiated the write off action for lost, unserviceable or obsolete inventory items in September 2014. The list of items to be written-off along with the prescribed form had been sent to the Administrative Services Branch in Geneva for approval. Based on the action taken by OCHA, recommendation 8 has been closed.*

#### **IV. ACKNOWLEDGEMENT**

53. 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 operations in Pakistan

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	The Country Office in Pakistan should, with the support of the Central Emergency Response Fund Secretariat, prepare standard operating procedures on the involvement of clusters/lead agencies of humanitarian projects to complement the flowchart on the Central Emergency Response Fund process in order to strengthen support for the monitoring and reporting of projects.	Critical	O	Receipt of a copy of standard operating procedures on the involvement of lead agencies of humanitarian projects to monitor and report on CERF projects.	31 December 2015
2	The OCHA Country Office in Pakistan should strengthen the capacity assessment process by including an assessment of critical information on implementing partners and using relevant information gathered from project monitoring reports and audit observations.	Important	O	Receipt of the revised CBPF Guidelines on the capacity assessment of implementing partners.	31 December 2015
3	OCHA should treat the initial payments of approved funds to implementing partners as receivables, which should be cleared upon receipt of the required reports from implementing partners.	Important	C	Action completed.	Implemented
4	OCHA New York and the Administrative Services Branch in Geneva should: (a) ensure that the revised Global Emergency Response Fund Guidelines define financial monitoring; and (b) formulate a mechanism for Country Offices to effectively monitor financial performance of projects.	Critical	O	Receipt of the revised CBPF Guidelines defining financial monitoring and formulating a mechanism for country offices to effectively monitor financial performance of ERF projects.	30 June 2015
5	The OCHA Country Office in Pakistan should	Important	C	Action completed.	Implemented

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by OCHA in response to recommendations

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the Office for the Coordination of Humanitarian Affairs operations in Pakistan

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
	establish a system to summarize audit observations for consideration by the Advisory Board as required in the Global Emergency Response Fund Guidelines.				
6	OCHA should establish a risk-based audit strategy focusing on high risk, high value and multiple project-awardee implementing partners instead of auditing all Emergency Response Fund projects.	Important	O	Receipt of the risk-based audit strategy for ERP projects.	30 June 2015
7	The OCHA Country Office in Pakistan should plan for adequate office space post 31 December 2014, taking into account that any decision to move to a new location entails proper physical security of the premises.	Important	O	Receipt of evidence that adequate office space is planned within the Serena Business Complex.	30 June 2015
8	The OCHA Country Office in Pakistan should update its inventory records and initiate write-off and disposal actions for lost, unserviceable, or obsolete inventory items as required by the administrative instruction on Property Management and Inventory Control at United Nations Headquarters.	Important	C	Action completed.	Implemented



# **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: 04 September, 2014

REFERENCE:

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

SUBJECT: **OCHA comments on OIOS draft report AN2013/590/03 – “Audit of the Office  
OBJET: for the Coordination of Humanitarian Affairs operations in Pakistan”**

1. Thank you for sharing the draft report of the “Audit of the Office for the Coordination of Humanitarian Affairs operations in Pakistan”.
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:

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## Management Response

## Audit of the Office for the Coordination of Humanitarian Affairs operations in Pakistan

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Country Office in Pakistan, with the support of the Central Emergency Response Fund Secretariat, should prepare standard operating procedures on cluster involvement to complement the flowchart on the Central Emergency Response Fund process and to strengthen the support for the monitoring and reporting of grants.	Critical	Yes	CO Pakistan, CERF	Q4 2015	Guidance exists to support offices on the inclusion of clusters in the CERF fund allocation process. Please refer to attached CERF guidance.  Following a CERF review undertaken in the last quarter of 2013, OCHA Pakistan identified this issue as a priority. Subsequently the office decided to outline a guidance process for the potential involvement of national level cluster coordinators in the development of the CERF prioritization, allocation, and project development process. However, in December 2013, the HCT deactivated the national level clusters.
2	The OCHA Country Office in Pakistan should strengthen the capacity assessment process by including an assessment of critical information on implementing partners and using relevant information gathered from project monitoring reports and audit observations.	Important	Yes	CO Pakistan, FCS	Q4 2015	A capacity assessment of implementing partners is one of the pillars of the Accountability Framework that is being launched jointly with revised country-based pooled fund guidelines at the end of 2014. Implementation has already begun for certain high-risk countries, namely Somalia and Afghanistan. Once fully developed, the capacity assessment will be progressively

<sup>1</sup> 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.

<sup>2</sup> 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.

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						<p>rolled-out in 2015 in all OCHA country operations starting with the high risk ones.</p> <p>The capacity assessment is aimed at carrying out a thorough analysis of the managerial and financial soundness of the internal systems and processes of each prospective NGO implementing partner. This analysis establishes eligibility to receive funding from the CBPF.</p> <p>Implementing partners that are eligible will be assigned a level of risk (low, medium or high) which will determine the minimum control mechanisms applied by OCHA throughout the grant management cycle (operational modalities). The risk level of each implementing partner is a dynamic rating that will be updated through the monitoring of the partner's performance in the implementation of the CBPF projects.</p>
3	OCHA should treat the initial payments of approved funds to implementing partners as receivables, which should be cleared upon receipt of the required reports from implementing partners	Important	Yes	FCS	Implemented	<p>OCHA considers this recommendation as closed.</p> <p>Since the introduction of IPSAS in January 2014, initial payments of approved funds to implementing partners are treated as receivables, and are cleared upon receipt of the</p>

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						required reports from implementing partners.  See attached Administrative and Financial Instruction No. 171.
4	OCHA New York and the Administrative Services Branch in Geneva should: (a) ensure that the revised Global Emergency Response Fund Guidelines define financial monitoring; and (b) formulate a mechanism for the Country Office to effectively monitor financial performance of projects.	Critical	Yes	FCS	Q2 2015	The Global Guidelines for Country-Based Pooled Funds will define financial monitoring and formulate a mechanism for the Country Office to effectively monitor financial performance of projects. The revised guidelines are expected to be finalized in the 4th quarter of 2014 and progressively rolled out to all CBPFs by end of 2 <sup>nd</sup> quarter of 2015.
5	The OCHA Country Office in Pakistan should establish a system to summarize audit observations for consideration by the Advisory Board as required in the Global Emergency Response Fund Guidelines.	Important	Yes	CO Pakistan	Implemented	The issue was discussed and addressed by the Advisory Board in July 2014. The ERF unit in Pakistan presented a summary of audit recommendations to the Board. The Board recommended further enhancing the matrix with the addition of a column to show monitoring activities and audit process, including timing.  See attached evidence for recommendation 5.
6	OCHA should establish a risk-based audit strategy focusing on high risk, high value and multiple project-awardee implementing partners instead of auditing all Emergency Response Fund projects.	Important	Yes	FCS	Q2 2015	The Global Guidelines for Country-Based Pooled Funds will introduce a comprehensive Accountability Framework that includes tools and suggests procedures for a more

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						<p>systematic approach to a risk-based management of implementing partners. The tool proposes different layers of controls depending on the type of implementing partner (i.e. UN agency, NGO), the assessed partner risk level as a result of the capacity assessment, and the value and duration of the respective project.</p> <p>These variations are defined as the “Operational Modalities” for NGO implementing partners and consist of (i) adjusting the number and percentage of disbursements tranches, (ii) the funding ceiling, (iii) the number and depth of field monitoring visits and (iv) financial spot checks, (v) the frequency and depth of narrative and financial reporting and (vi) regularity of partner audits. The proposed frequency and intensity is a minimum standard across all CBPFs, which can be enhanced and added on depending on the country-specific monitoring and reporting frameworks and local context requirements.</p> <p>In addition, OCHA continues to explore the option of a partner and risk-based audit strategy focusing on high risk, high value and multiple project-awardee implementing partners instead of auditing all the projects funded by CBPFs. The strategy is will be finalized and</p>

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						progressively rolled out to CBPFs by the end of 2 <sup>nd</sup> quarter of 2015.
7	The OCHA Country Office in Pakistan should plan for adequate office space post 31 December 2014, taking into account that any decision to move to a new location entails proper physical security of the premises and a significant capital investment.	Important	Yes	CO Pakistan	Overtaken by events	<p>OCHA considers this recommendation as overtaken by events.</p> <p>In February 2014, UNDP announced a cost reduction of 32 per cent per sq. ft. on the rent charged (see attached minutes). Nearly all agencies with offices in the Serena Building Complex including OCHA agreed to remain after 31 December 2014. The SBC is a UN Common Premises; UNDP is the lessee and every UN agency accommodated at SBC signed a MoU with UNDP. Please refer to the attached Minutes of the meeting and the MoU signed by OCHA ASB Geneva.</p>
8	The OCHA Country Office in Pakistan should update its inventory records and initiate write-off and disposal actions for lost, unserviceable, or obsolete inventory items as required by ST/AI/2003/5.	Important	Yes	CO Pakistan	Implemented	<p>OCHA considers this recommendation as implemented.</p> <p>OCHA Pakistan initiated the write off in September 2014. The list of the items to be written-off along with GS45 Form has been sent to ASB Geneva for approval.</p>