



## INTERNAL AUDIT DIVISION

### REPORT 2015/095

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Review of recurrent issues identified  
in recent internal audit engagements  
for the Office for the Coordination of  
Humanitarian Affairs

8 September 2015  
Assignment No. AN2014/590/03

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# **Review of recurrent issues identified in recent internal audit engagements for the Office for the Coordination of Humanitarian Affairs**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted a review of recurrent issues identified in recent internal audit engagements for 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. By its resolution 46/182 dated 19 December 1991, the General Assembly created OCHA as part of the United Nations Secretariat with the mandate to: (a) mobilize and coordinate effective and principled humanitarian action in partnership with national and international actors in order to alleviate human suffering in disasters and emergencies; (b) conduct humanitarian advocacy for the rights of people in need; (c) promote preparedness and prevention; and (d) facilitate sustainable solutions.
4. OIOS reviewed recurrent issues in eight internal audit engagements for OCHA that were completed between January 2012 and March 2015. These were the audits of: (a) OCHA country offices in Haiti, Somalia, Democratic Republic of Congo and Pakistan; (b) OCHA Regional Office for Latin America and the Caribbean; (c) Trust Fund for Disaster Relief; (d) the receipt and disbursement of earmarked voluntary contributions; and (e) the reconciliation of the United Nations Development Programme Service Clearing Account.
5. During the period covered by the review, OCHA coordinated humanitarian assistance through implementing partners using three types of pooled funds: (a) Central Emergency Response Fund (CERF); (b) Common Humanitarian Fund; and (c) Emergency Response Fund.
6. OCHA managed CERF as a separate general trust fund on behalf of the Secretary-General under the authority of the Emergency Relief Coordinator. CERF financed life-saving projects proposed by United Nations agencies under the leadership of Humanitarian Coordinators and the Humanitarian Country Teams in the form of grants and loans. Annual allocations of CERF were about \$450 million.
7. The Common Humanitarian Funds and the Emergency Response Funds were country-based pooled funds. The Common Humanitarian Funds enabled the Humanitarian Country Teams to allocate resources to fund priority life-saving projects as identified in a Consolidated Appeal Process or a similar humanitarian action plan. The Emergency Response Funds provided rapid and flexible funding to address critical gaps in humanitarian emergencies. In 2015, OCHA harmonized the Emergency Response Funds and the Common Humanitarian Funds into a single country-based pooled fund framework. Country-based pooled funds were established by the Emergency Relief Coordinator and managed by OCHA at the country-level under the leadership of the Humanitarian Coordinator. They were allocated through an in-country consultative process.
8. Comments provided by OCHA and the Department of Management are incorporated in *italics*.

## II. REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

9. The main objective of the engagement was to review recurrent issues reported in recent OIOS engagements of OCHA activities, determine whether actions taken by OCHA had effectively addressed the causes of the issues, and identify further improvements needed at the institutional level.

10. The engagement was included in the 2014 OIOS risk-based work plan due to risks highlighted by recent OIOS internal audit engagements.

11. OIOS conducted the review from August 2014 to March 2015. The review covered reports on OIOS internal audit engagements for OCHA from January 2012 to March 2015.

12. As summarized in Table 1, the results of the audit engagements were aggregated in three focus areas. The first focus area covered the control environment, including organizational structure and capacity of OCHA at Headquarters and country offices and the financial delegation of authority to OCHA. The second focus area covered control activities, including policies and procedures related to programming of extrabudgetary resources, capacity assessment of implementing partners, project audits, procurement and general administration. The third focus area covered monitoring activities, including monitoring mechanisms, evaluation, and reporting.

13. The review included an analysis of the status of recommendations, and the adequacy of policies issued and actions taken by OCHA to implement audit recommendations. OIOS also interviewed OCHA management and officials of the Office of Programme Planning, Budget and Accounts (OPPBA).

## III. REVIEW RESULTS

14. The audit results reviewed during this engagement identified recurrent issues across country offices and other OCHA activities. OIOS issued 67 recommendations to address the issues identified in the audits. Table 1 summarizes these recommendations into three focus areas: (a) control environment; (b) control activities; and (c) monitoring activities.

**Table 1: Number and percentage of recommendations by focus areas**

No.	Focus area	Number of recommendations	Percentage
1.	Control environment	27	40
2.	Control activities	29	43
3.	Monitoring activities	11	17
<b>Total</b>		<b>67</b>	<b>100</b>

15. OIOS analyzed the implementation status of these recommendations and noted that OCHA formally issued the Operational Handbook for Country-based Pooled Funds in February 2015 to guide the management of OCHA-managed country-based pooled funds. The Handbook introduced internal controls in areas that were previously identified as weak in many OIOS recommendations. Other areas that needed to be addressed at the institutional level included: (a) the requirement of a strategy in OCHA to effectively manage income from the programme support account, in collaboration with OPPBA; (b) a review of the capacity and support systems of OCHA at its field offices, in consultation with the Controller, to determine whether field offices could exercise financial delegation of authority in the context of their fund management responsibility; and (c) a review by OPPBA of the financial delegation

of authority to OCHA and the establishment of an effective system to monitor how OCHA exercised this authority.

16. OIOS made three recommendations to address issues identified during the review. OCHA and the Department of Management accepted the audit recommendations and are in the process of implementing them.

## A. Control environment

17. A total of 27 recommendations were issued in the area of control environment. Of these recommendations, 14 had been implemented. In this area, OIOS identified recurrent weaknesses in organizational operational capacity and financial delegation of authority.

### The need for financial delegation of authority at OCHA country offices required review

18. The administrative instruction on the delegation of authority under the Financial Regulations and Rules of the United Nations provided that the exercise of the delegated authority entailed responsibility for ensuring full implementation of the relevant Financial Regulations and Rules of the United Nations and related administrative instructions.

19. The Administrative Services Branch in OCHA Geneva exercised the financial delegation of authority from the United Nations Controller for country-based pooled funds. The delegation included the authority to accept voluntary contributions and issue allotments, allocations and grants. OCHA field offices covered in this review had fund management responsibility but no financial delegation of authority to certify and approve payments as these functions were carried out at OCHA Headquarters in New York and Geneva or performed by local service providers. The absence of authority to certify and approve funds for activities related to OCHA field offices could hinder the offices' ability to effectively implement country-based pooled fund humanitarian projects, and manage staff and other resources dedicated to field operations. OCHA had not conducted a needs assessment of the capacity, support systems and delegation of financial authority required to deliver its mandate in its field operations. As a result, OIOS audits of OCHA field offices showed control weaknesses in: (a) late reconciliation of field office payments made by the local service providers as the reconciliation responsibility was at the Headquarters level; and (b) inconsistent application of United Nations policies regarding disbursements to implementing partners. OCHA indicated that, as currently structured in the field, it could not implement a financial delegation of authority at the country office level because of lack of capacity and support systems.

<p><b>(1) OCHA should, in consultation with OPPBA, review the capacity and support systems at its field offices and determine whether field officers could exercise financial delegation of authority to initiate and approve local financial transactions.</b></p>
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20. *OCHA accepted recommendation 1 and stated that as part of Umoja implementation, the two OCHA trust funds in Geneva and New York were merged and delegation of authority assigned centrally to the Executive Officer to manage OCHA global administrative services. OCHA also re-calibrated its support services to leverage the Umoja solution and introduced service hubs in Bangkok, Geneva, Nairobi and New York to take advantage of United Nations' presence in these locations and minimize transaction processing activities through the service provider. OCHA will review delegation requirements for field operations after Umoja has stabilized and, as part of that process, ensure that adequate controls are established, segregation of duties are in place, and accountability is aligned with roles and responsibilities (including Umoja workflow processes). Recommendation 1 remains open*

pending receipt of the results of the OCHA review of financial delegation requirements for field operations.

Delegation of financial authority needed to be effectively monitored

21. The administrative instruction on delegation of authority under the Financial Regulations and Rules of the United Nations provided that the act of delegating authority and responsibility did not absolve the official to whom authority was initially delegated from accountability for the manner in which the authority was exercised. This provision called for OPPBA to monitor how OCHA exercised the financial authority delegated to it. There was, however, no evidence that OPPBA was actively monitoring its delegation of authority granted to OCHA.

22. OCHA had financial delegation of authority for the management of its two main general trust funds. This financial delegation was split over these funds into two geographical locations (New York and Geneva). The Executive Officer who functionally oversaw the financial and administrative services of OCHA did not have the financial delegation of authority over the main trust funds financing OCHA field activities. OCHA, in collaboration with OPPBA, was in the process of merging these trust funds and restructuring its delegation of authority mechanism. Fifteen audit recommendations related to financial management and oversight indicated that OPPBA did not effectively monitor how OCHA exercised its financial delegation of authority. This was illustrated particularly by the significant reconciliation backlog of the United Nations Development Programme service clearing account and deficiencies in financial reporting by the implementing partners. OPPBA had not established a mechanism to monitor the delegation of authority it granted to OCHA.

<b>(2) OPPBA should, in consultation with OCHA, establish an effective system to monitor how OCHA exercises the financial authority delegated to it.</b>
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23. *The Department of Management accepted recommendation 2 and stated that with the deployment of Umoja there would be increased controls around delegation of authority and increased visibility as to how delegation of authority was used. OCHA agreed with comments provided by OPPBA. Recommendation 2 remains open pending notification of the system established by OPPBA to monitor how OCHA exercises the financial authority delegated to it.*

## **B. Control activities**

24. All eight audit engagements reviewed included 29 recommendations related to control activities, including policies and procedures related to fund programming, fundraising, capacity assessment of implementing partners, project audits, general administration, and procurement. Of these recommendations, 21 had been implemented. Under fund programming, the review focused on the budgetary processes that OCHA utilized in programming its extrabudgetary resources.

A budget review mechanism was being implemented

25. The Secretary-General's bulletin on the establishment and management of trust funds and the administrative instruction on trust funds required OCHA to prepare annual cost plans for submission to OPPBA or the Financial Resources Management Service at the United Nations Office at Geneva for review and to authorize an envelope within which allotments, allocations, and grants could be issued by OCHA. This was also in line with the Secretary-General's bulletin on programme planning, budgeting, monitoring and evaluation, which required that all activities, whether financed from the regular budget or extrabudgetary resources be subject to adequate review.

26. The proposed programme budget for OCHA covering the 2014-2015 biennium totaled \$661.6 million of which \$630.2 million or 95 per cent represented extrabudgetary funding. The audit of the management of the Trust Fund for Disaster Relief found that an internal budget oversight mechanism was needed to strengthen the extrabudgetary budgeting process since the scrutiny by the Advisory Committee on Administrative and Budgetary Questions was limited to reviewing extrabudgetary funding of posts at the D-1 and above levels.

27. In response to OIOS recommendations, OCHA established in 2013 a more transparent and clearly defined budgeting control process including a Budget Review Committee comprising senior managers to review budget allocation decisions based on priorities reflected in its annual cost-plans. The Budget Review Committee had operated for over a year and OCHA was in the process of identifying and incorporating lessons learned in its budget review process. OCHA also planned to institute a simplified cash management process in the context of the streamlining of its trust funds as indicated in its 2014-2017 management plan. OIOS will revisit the effectiveness of the budget review process in future audits.

#### Management of programme support account income needed a strategy

28. The administrative instruction on programme support accounts required OCHA, as implementing office, to prepare an annual proposal for the use of its programme support income. Additionally, the Secretary-General's 2009 bulletin on the procedures for promulgating administrative issuances required the issuances to be reviewed periodically to ensure they are up to date.

29. The audit of the management of the Trust Fund for Disaster Relief, conducted in 2012, found that OCHA had received a cumulative amount of approximately \$112 million in programme support income from all its extrabudgetary activities, including \$3.8 million in interest. Although OCHA had drafted a strategy in June 2012 for the use of the programme support account income, the strategy had not yet been approved by OCHA senior management and cleared by OPPBA. Furthermore, OPPBA had not updated the administrative instruction on programme support accounts since it was issued in 1982 to ensure the guidance remained relevant.

<p><b>(3) OPPBA should update the administrative instruction on the use of programme support account income.</b></p>
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30. *The Department of Management accepted recommendation 3 and stated that the recovery and use of programme support costs resources were of central importance to the financing and organization of efficient and effective programme support services. In preparation for the deployment of Umoja in Cluster 3 entities in June 2015, the Controller issued two memoranda outlining the policy on the administration of programme support accounts financed from extra-budgetary funds and changes to roles and processes in the management of voluntary contributions. The new policies contained in the above memorandums will be further amplified once Umoja is deployed in all duty stations and its new functionality on programme support costs management is fully operational. Recommendation 3 remains open pending promulgation of the policy on the use and management of programme support account income.*

#### Procedures to assess the capacity of implementing partners were developed

31. Organizations receiving funds from OCHA should have adequate institutional capacity to effectively and efficiently implement humanitarian assistance projects.

32. OCHA did not have adequate mechanisms to assess the capacity of its implementing partners (non-governmental organizations, governmental and local institutions) to ensure that they had sufficient operational capacity to effectively and efficiently implement projects to achieve intended humanitarian assistance objectives. OCHA had developed a capacity assessment procedure which had been piloted in Somalia. Subsequently, the procedure was included in the Operational Handbook for Country-based Pooled Funds which was issued in February 2015. OIOS will revisit the effectiveness of the capacity assessment process in future audits.

A strategy for auditing projects implemented by non-governmental organizations was developed

33. The MOU with implementing partners required that all projects be audited at least once during their lifespan. 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, OCHA did not ensure that project audits were carried out in a timely manner to determine whether project funds were appropriately spent. OCHA was in the process of putting in place an audit strategy to improve the timeliness and effectiveness of the project audit coverage. Also, the procedure for a risk-based audit strategy was included in the Operational Handbook for Country-based Pooled Funds. OIOS will revisit the effectiveness of the risk-based audit strategy in future audits.

Memorandum of understanding templates with implementing partners were being streamlined

34. The MOUs between OCHA and the implementing partners were expected to establish clear requirements on the basis of which the signatories were held accountable.

35. The template of the MOU signed with implementing partners (NGOs) was not consistent in outlining controls through which OCHA ensured adequate accountability and assurance. The audit results showed that financial reporting requirements were inconsistent, the responsibility for receiving certified financial reports was unclear, and the main subcontractors were not disclosed. OCHA indicated that the template had been reviewed and revised to address these areas in February 2015. OIOS will review the revised template and compliance thereto in future audits.

OCHA revised its policy to disburse project funds to non-governmental organization implementing partners based on risk

36. OIOS audits of disbursements of project funds showed that as a matter of policy, OCHA disbursed 80 per cent of the project budget to NGO implementing partners to implement humanitarian projects. OCHA did not assess the management capacity and internal control systems of NGO implementing partners to manage the funds received and to mitigate potential risks. OCHA also did not actively monitor the financial performance of the projects. The remaining 20 per cent was disbursed after the completion of project activities and submission of a final report by the NGO. Project audits were conducted after the completion of project activities.

37. OCHA revised its policy on the disbursement of project funds to NGO implementing partners and included the results in the Operational Handbook for Country-based Pooled Funds. The Handbook established a risk-based approach to assess the capacity of implementing partners which categorized NGO implementing partners into three groups: (i) high risk; (ii) medium risk; and (iii) low risk. The assessment also assigned weights to the project duration and value. For example, disbursement of project funds to high risk NGO implementing partners with project duration of less than seven months and with project value of less than \$250,000 would be made in tranches of 60 per cent at the approval of the project and 40 per cent at the completion. OIOS will revisit the effectiveness of this revision in future audits.



### **C. Monitoring activities**

38. OIOS audits included 11 recommendations in the area related to monitoring, reporting and evaluation. Eight of these recommendations were implemented.

The Operational Handbook for Country-based Pooled Funds addressed many OIOS recommendations on monitoring activities

39. General Assembly Resolution 46/182 emphasized the need to put in place a strong mechanism for the coordination of humanitarian assistance including effective use of the contributions. Five audits of country-based pooled funds (Haiti, Democratic Republic of the Congo, Somalia, Sudan, and Pakistan) showed that there was a lack of comprehensive corporate guidelines on monitoring, reporting and evaluation to ensure that funds allocated to implementing partners were used effectively and efficiently in the field. In addition, there was a lack of an assurance system to ensure that donor reporting reflected the actual use of the funds. OCHA initiated actions to strengthen its assurance framework by developing more comprehensive guidelines in the Operational Handbook for Country-based Pooled Funds and providing more resources for the monitoring and reporting functions. OIOS will revisit the effectiveness of these guidelines in future audits

### **IV. ACKNOWLEDGEMENT**

40. OIOS wishes to express its appreciation to the Management and staff of OCHA and the Department of Management 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

## Review of recurrent issues identified in internal audit engagements for the Office for the Coordination of Humanitarian Affairs

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	OCHA should, in consultation with OPPBA, review the capacity and support systems at its field offices and determine whether field officers could exercise financial delegation of authority to initiate and approve local financial transactions.	Important	O	Receipt of the results of the OCHA review of financial delegation requirements for field operations.	31 March 2016
2	OPPBA should, in consultant with OCHA, establish an effective system to monitor how OCHA exercises the financial authority delegated to it.	Important	O	Notification of the system established by OPPBA to monitor how OCHA exercises the financial authority delegated to it.	30 June 2016
3	OPPBA should update the administrative instruction on the use of programme support account income.	Important	O	Promulgation of administrative instruction on the use and management of programme support account income.	31 December 2016

<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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by OCHA and the Department of Management in response to recommendations.

# **APPENDIX I**

## **Management Response**

United Nations  Nations Unies  
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

to: Ms. Muriette Lawrence-Hume, Chief,  
A: New York Audit Service,  
Internal Audit Division, OIOS

DATE: 5 August 2015

REFERENCE:

THROUGH:

S/C DE:

FROM: Stephen O'Brien, Under-Secretary-General for  
DE: Humanitarian Affairs

*Stephen O'Brien*  
*6/8/15*

SUBJECT: **Draft report on a review of recurrent issues identified**  
OBJET: **in recent internal audit engagements for OCHA**  
**(AN2014/590/03)**

1. In reference to your memorandum dated 21 July 2015, please find enclosed OCHA's comments on recommendation 1, which reiterates the previous response reflected in paragraph 20.
2. We understand that separate comments have been provided by OPPBA regarding recommendations 2 and 3. OCHA is in agreement with these comments.
3. Thank you.

cc: Chandramouli Ramanathan, OPPBA

### Management Response

#### Draft report on the review of recurrent issues identified in internal audit engagements for the Office for the Coordination of Humanitarian Affairs (Assignment No. AN2014/590/03)

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OCHA should, in consultation with OPPBA, review the capacity and support systems at its field offices and determine whether field officers could exercise financial delegation of authority to initiate and approve local financial transactions	Important	Yes	Executive Officer	31 March 2016	As per OCHA client comments provided on the detailed results report.
2	OPPBA should, in consultation with OCHA, establish an effective system to monitor how OCHA exercises the financial authority delegated to it.	Important	Yes	n/a	n/a	OCHA agrees with comments previously provided by OPPBA.
3	OPPBA should update the administrative instruction on the use of programme support account income.	Important	Yes	n/a	n/a	OCHA agrees with comments previously provided by OPPBA.

<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.

United Nations  Nations Unies  
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Ms. Muriette Lawrence-Hume, Chief, New York Audit Service DATE 12 August 2015  
A: Internal Audit Division, Office of Internal Oversight Services

THROUGH: Christian Saunders, ~~Director~~  
S/C DE: Office of the Under-Secretary-General for Management

FROM: Mario Baez, Chief, Policy and Oversight Coordination Service  
DE: Office of the Under-Secretary-General for Management

*Case Tuhant for*

SUBJECT: **Draft report on a review of recurrent issues identified in recent internal audit**  
OBJET: **engagements for the Office for the Coordination of Humanitarian Affairs**  
**(Assignment No. AN2014/590/03)**

1. With reference to your memorandum dated 21 July 2015, please find the comments of the Department of Management to the recommendations in the attached Appendix I.
2. Thank you for giving us the opportunity to provide comments on the draft report.

*15-02109  
13 Aug 2015*

## Management Response

## Draft report on the review of recurrent issues identified in internal audit engagements for the Office for the Coordination of Humanitarian Affairs (Assignment No. AN2014/590/03)

Rec. no.	Recommendation	Critical/ Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OCHA should, in consultation with OPPBA, review the capacity and support systems at its field offices and determine whether field officers could exercise financial delegation of authority to initiate and approve local financial transactions.	Important				
2	OPPBA should, in consultation with OCHA, establish an effective system to monitor how OCHA exercises the financial authority delegated to it.	Important	Yes	Deputy Controller	30 June 2016	With the deployment of Umoja there will be increased controls around delegation of authority and increased visibility on how delegation of authority is used.
3	OPPBA should update the administrative instruction on the use of programme support account income.	Important	Yes	Deputy Controller	31 December 2016	The recovery and use of programme support costs resources are of central importance to the financing and organization of efficient and effective programme support services. In preparation for the deployment

<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.

## Management Response

Draft report on the review of recurrent issues identified in internal audit engagements for the  
Office for the Coordination of Humanitarian Affairs (Assignment No. AN2014/590/03)

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						of Cluster 3 of Umoja in June 2015, the Controller issued two memoranda outlining the policies on the administration of programme support accounts financed from extra-budgetary funds and changes to roles and processes in the management of voluntary contributions. The new policies contained in the above memoranda will be further amplified once Umoja is deployed in all duty stations and its new functionality on programme support costs management is fully operational.