Audit of the Democratic Republic of Congo (DRC) Pooled Fund

Office of Internal Audit
and Investigations (OIAI)
Report 2013/15

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Summary

The Office of Internal Audit and Investigations (OIAI) has participated in an audit of the Democratic Republic of Congo (DRC) Pooled Fund. The audit, which took place from 28 January 2013 to 12 February 2013, covered the period from January 2011 to 30 June 2012. The audit sought to assess whether UNICEF country office's controls and processes for the management of Pooled Fund-related activities were established and functioning during the period under audit.

The DRC Pooled Fund was established in 2006 for humanitarian activities in the DRC. It is intended to give the UN greater ability to target funds on the most critical humanitarian needs, encourage early donor contributions, and enable a rapid response to unforeseen circumstances. The Fund was established through the signing of a memorandum of understanding between the Humanitarian Coordinator, the Office for the Coordination of Humanitarian Affairs (OCHA), participating United Nations organizations, the United Nations Development Programme (UNDP) Multi-Donor Trust Fund Office (as the Administrative Agent), and the UNDP office in the DRC as the Managing Agent. The UNDP Multi-Donor Trust Fund Office administers the Fund in accordance with UNDP financial regulations and rules. The Pooled Fund is under the overall authority of the Humanitarian Coordinator, who is also the Resident Coordinator of the UN and Representative of UNDP.

The Humanitarian Action Plan in the DRC provides the strategic programmatic and operational plan for providing humanitarian and emergency assistance. Technical expertise is provided through eight clusters in the areas of education, food security, health, logistics, nutrition, protection, shelter and non-food items and water, sanitation and hygiene, each coordinated by a UN agency. UNICEF leads four of these clusters in the DRC. Funds are allocated to implementing partners through a consultative process that involves the Humanitarian Coordinator and the Pooled Fund Board, which consists of representatives from donors, NGOs, and the participating UN organizations. An OCHA-UNDP joint Pooled Fund unit headed by OCHA manages the Pooled Fund mechanism in the country and its day-to-day operations.

Following a 2011 risk assessment by UNDP's Office of Audit and Investigations, Representatives of the Internal Audit Services of the United Nations Organizations (UN-RIAS) asked the key UN organizations participating in the DRC Pooled Fund to coordinate their internal audits of the Fund. This was to be done according to the *Framework for Auditing Multi-Donor Trust Funds*, which was endorsed by the United Nations Development Group in September 2007. In line with this, each participating internal audit service conducted an individual audit of their share of the Pooled Fund, taking into consideration risks identified in the coordinated risk assessment. The key organizations are those that received significant amounts from the Pooled Fund: UNDP, the Food and Agriculture Organization (FAO), the World Food Programme (WFP), the World Health Organization (WHO) and UNICEF. The results of these individual audits are being compiled into an overall summary report that will be issued by UNDP's Internal Audit Service on behalf of the participating UN internal audit services. The actions recommended for the Humanitarian Coordinator are being included in the joint audit report. However, this report is of the individual audit by UNICEF, and includes observations for action by UNICEF only.

By the end of 2011, the Fund had received contributions totalling US$ 662 million from 11 donors; by 30 June 2012 it had received another US$ 55.8 million which was about 34

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percent of the US$ 164 million budgeted for emergency activities by the UNICEF country office. As of that date, the total distributed to all participating organizations was US$ 687.6 million, of which UNICEF had received cumulative funding of US$ 142.9 million, or about 21 percent. Programmes that have benefited from the Pooled Fund include Water and Sanitation Health (WASH), Nutrition, Education, and Protection. As of 30 June, UNICEF had a cumulative expenditure of US$ 134.1 million—about 94 percent of the total allocated funds.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. The report does not contain any high-priority issues. However, four medium-priority actions were agreed. These are described in the report.

Conclusion

The audit concluded that overall, subject to implementation of the agreed actions, the DRC UNICEF country office's controls and processes for the management of DRC Pooled Fund-related activities were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The UNICEF country office has prepared action plans to address the issues raised by the audit. The country office, with support from the West and Central Africa Regional Office, will work with OIAI to monitor implementation of these measures.

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Contents

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Objectives and Scope

The objective of an audit is to provide assurance as to whether there are adequate and effective controls, risk management and governance processes in key management areas. In addition to this assurance service, the audit identifies, as appropriate, noteworthy practices that merit sharing within UNICEF.

The objective of the audit of DRC Pooled Fund was to assess whether: (a), the DRC UNICEF country office management of funds received under the Pooled Fund mechanism was in compliance with related agreements; (b), whether the office's risk management and control processes provided reasonable assurance that resources to implement the DRC Pooled Fund-related activities were acquired economically and used efficiently, in compliance with UNICEF rules and regulations; and (c), whether financial and programmatic reporting was reliable.

The audit, which covered the period 1 January 2011 to 30 June 2012, was part of the response to the request made by a meeting of UN-RIAS to coordinate internal audit of the Pooled Fund. The observations and recommendations included in this report are for action by UNICEF; those for action by the Humanitarian Coordinator will be included in the joint audit report to be issued by the UNDP Internal Audit Service on behalf of the internal audit offices of the participating organisations.

Audit observations

Noteworthy practice
The UNICEF country office, based on its own humanitarian experience and in collaboration with the Office for the Coordination of Humanitarian Affairs (OCHA), had developed an innovative approach to secure the flexibility and speed required to respond quickly to unforeseen emergencies: the Rapid Response to Movements of Population (RRMP).

The RRMP design departs from conventional emergency programming in being essentially a contingency mechanism; yearly plans are drawn up for full-time emergency response capacity by province, without specifying exactly where, how and when such interventions will happen. The scope of interventions covers provision of temporary shelter materials and non-food items, water and sanitation services, and emergency education kits and school rehabilitation. The RRMP's strategy integrates three basic requirements: continuous humanitarian surveillance; a capacity to quickly respond through pre-established partnerships with stand-by international non-governmental organizations (NGOs); and pre-positioned relief supplies and funding for those partners, allowing them to respond immediately without having to submit individual project proposals and budgets for each proposed intervention. The RRMP mechanism is the main tool used by the Humanitarian Coordinator to react to acute emergencies and is, according to the office, the largest single humanitarian response programme in DRC after food aid.

In order to track the activities and outputs of the RRMP, in 2009 the office created an on-line activity and output tracking system called Activity Info. Using simple standardized activity reporting templates, the international NGOs provide data in real time on all project activities via a web-based interface which feeds into a database capable of generating information for

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reporting and analysis.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office complied with the terms of the signed agreements with the Humanitarian Coordinator by submitting all the required reports (project results sheets, and narrative and financial reports) on time, and communicating regularly any changes or updates regarding the Pooled Fund-approved projects. The Head of the Joint Humanitarian Funding Unit[1] (JHFU) rated the performance of the office in this area as outstanding compared to other participating organizations.

The UNICEF office was allowed to submit proposals for the DRC Pooled Fund standard allocations, but refrained from doing so for the funds related to the clusters[2] it led, both to avoid the perception that it was taking advantage of its cluster-lead position, and to allow other partners, particularly local NGOs, to benefit from this funding. This approach was keenly appreciated by OCHA and the clusters' members, and gave credibility to the office as cluster lead.

Cluster-lead responsibilities

According to the Inter-Agency Standing Committee (IASC), the role of cluster lead at the country level is to facilitate a process aimed at ensuring well-coordinated and effective humanitarian responses in the sector or area concerned. This includes a wide range of responsibilities, such as inclusion of key humanitarian partners, needs assessment and analysis, application of standards, training of staff and capacity building of humanitarian partners, monitoring and reporting, and – as a last resort – provision of assistance or services. Cluster-lead organizations are accountable to the Humanitarian Coordinator for ensuring that these tasks are carried out effectively. The UNICEF office was leading four clusters, and was expected to mobilize sufficient human and financial resources to fulfill its responsibilities. The following issues were noted on cluster staffing and related funding needs.

Clusters staffing: As part of the preparation of the 2013-2017 country programme, the office conducted an analysis of the staffing requirements of the programme, including those needed to fulfill its responsibilities regarding humanitarian activities.

The office had a staff complement of 56 involved in cluster activities, of which six worked as dedicated, full-time sector leads; another 33 were coordinators for provincial clusters, and allocated variable proportions of their time to cluster work. For the Education and Nutrition clusters, the provincial cluster coordinators were also sector administrators, which made them responsible not only for emergency activities but also for the regular workplans in

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[1] The JHFU, which is under the authority of Office for the Coordination of Humanitarian Affairs (OCHA), oversees the day-to-day operations of the Pooled Fund. These include the programmatic and financial management of UN and NGO projects, field monitoring of project implementation, and oversight of the project selection cycle and technical review process.
[2] Clusters bring together key agencies in a given sector so that they can cooperate quickly in an emergency. A lead agency (often a UN agency) will have global cluster coordination responsibilities. UNICEF is the lead agency for several clusters and has a key role in several more.

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these sectors. They devoted between 10 and 25 percent of their time to cluster coordination, although the job description of an administrator did not include responsibility and related qualifications in the humanitarian field. In contrast, for the Water, Sanitation and Health (WASH) provincial clusters, in addition to the sector administrators, there were four Water and Environmental Sanitation officers in the provinces who devoted 75 percent of their time to cluster coordination. The provincial clusters did not, therefore, have the same staffing resources; however, they were expected to comply with the same generic cluster terms of reference. The OCHA coordinator in the province of North Kivu indicated that this was clearly reflected in variable quality of the cluster work, reactivity to emergency situations and reporting. In particular, the programme administrators tasked with emergency and clusters coordination functions had difficulties adapting to the dynamic and logic of humanitarian interventions.

As part of the reorganization of the country programme, the UNICEF North Kivu field office was merged with the East zone office, resulting in the transfer of some of the humanitarian activities to the zonal clusters coordinators. The country office had not taken a consistent approach to defining the new emergency organogram. This led to various scenarios, with an extreme case where all the clusters-coordination and emergency responsibilities were assigned to the zonal clusters coordinator, resulting in a significant increase in this staff member's workload.

In the East zone, where the RRMP was mainly implemented (it had 79 percent of 2012 RRMP budget), there was only one information management officer in charge of the development and maintenance of Activity Info and support to the emergency section. The zonal clusters lead stated that there was a need for an additional data/information management officer to assist in the development of tools for data collection for the clusters, and to assist the cluster leads in data analysis, database development and reporting.

Financial resources: The Humanitarian Coordinator recognized that the clusters had insufficient resources to fulfill their central role in supporting humanitarian coordination and Pooled Fund allocations. He therefore authorized, in June 2011, a special allocation of US$ 4.2 million from the Pooled Fund to strengthen the capacity of eight clusters to perform their tasks for a period of 12 months (mid-2011 to mid-2012). The UNICEF allocation for the four clusters it led was US$ 2.1 million. This allocation was intended mainly for covering part of the salaries of emergency staff, training of cluster members and field-monitoring visits of projects funded by the Pooled Fund. As an example, 31 training events were conducted for WASH cluster members and 34 training events, benefiting 814 participants, for the Education clusters.

In 2012, the budget gap for the functioning of the clusters led by UNICEF was estimated at US$ 1.7 million. The Pooled Fund allocation for clusters' reinforcement was not carried over and the concerned sections within the UNICEF office had to establish priorities to partially fill the gap. The office therefore paid staff salaries at the expense of reinforcement of capacity and field monitoring of cluster activities. As an example, the Nutrition cluster, with the highest funding gap, managed to pay salaries (US$ 306,480 from RR and OR resources[3]), but

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[3] Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources are contributions that have been made for a specific purpose and may not be used for other purposes without the donor's agreement. Other Resources must be raised by the country office, and funding shortfalls may mean that some programme components cannot be implemented.

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did not fund needs assessment, training or facilitation workshops budgeted at US$ 393,170. The audit noted that funding needs for cluster management will increase by 35 percent in 2013 to reach US$ 2.3 million, and there will be limitations on the ability of the office to meet all of its responsibilities as cluster lead, particularly in the areas of reinforcement of capacities of cluster members and field monitoring of projects. A recommendation to remedy this weakness has been proposed for inclusion in the joint audit report to be issued by the UNDP Internal Audit Service on behalf of the internal audit services of the UN participating organisations.

Agreed action 1 (medium priority): The office agrees to:

i.   proactively initiate, within the Humanitarian Country Team-led process,[4] a clear definition of results expected from cluster coordinators by sector and by level (provincial, zonal and national), which should be reflected in the cluster terms of reference; and,

ii.   ensure that the responsibilities and related qualifications for humanitarian activities are reflected in the job descriptions of staff significantly involved with these activities, and that appropriate training is included in their learning plans.

Responsible staff members: the Deputy Representative, Emergency and transition Chief, HR Manager and Sections Chiefs. The office expects to have completed these actions by 30 June 2013.

Monitoring of Rapid Response to Movements of Population (RRMP)

As stated earlier (see *Noteworthy practice*, above), the RRMP is a mechanism, co-managed by OCHA and UNICEF, to enable rapid, flexible response to unforeseen emergencies. It consists of eight stand-by implementing partners, financial resources, and supplies that are prepositioned to enable a rapid humanitarian response at the onset of population movements (either displacements or returns), natural disasters and/or epidemics. The UNICEF country office is in charge of managing the Pooled Fund funding of, and stand-by partnerships with, international NGOs, as well as the procurement and pre-positioning of relief supplies.

The international NGO partners have a contractual obligation to monitor at least 70 percent of their activities that are funded through the RRMP, while the office also carries out field monitoring through the RRMP process. It also provides the monitoring and evaluation officer, provincial emergency officers and zonal and provincial clusters coordinators. However, there was no structured framework for monitoring the implementation of recommendations from field visits, documenting lessons learned, or assessing the programmatic performance of the eight RRMP international NGO partners. The RRMP coordinator was aware of the need to improve analysis of monitoring data collected by partners, but this was hindered by the limited staff of the RRMP team. In fact, although the RRMP had an average annual budget of US$ 35 million and covered four large provinces, there were only two staff members (RRMP coordinator and monitoring and evaluation officer) who worked full-time as RRMP staff.

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[4] The Humanitarian Country Team is a committee chaired by the Humanitarian Coordinator and comprised of the heads of humanitarian organizations, participating NGOs and donor representatives.

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Agreed action 2 (medium priority): The office agrees to establish a framework to monitor the Rapid Response to Movements of Population (RRMP) process, and ensure that adequate staff resources are assigned to follow up on recommendations arising from field monitoring visits, document lessons learned, and assess the programmatic performance of the RRMP implementing partners.

The responsible staff members are the RRMP Coordinator and the Emergency Monitoring and Evaluation Officer. The office expects to have completed these actions by 30 September 2013.

Management of cash transfers

The audit reviewed the management of cash transfers in the country office and also reviewed the processes for processing and accounting for cash transfers to RRMP partners.

Implementation of HACT: The principles of the harmonized approach to cash transfers (HACT) also apply for the funds allocated from the Pooled Fund. HACT exchanges a system of rigid controls for a risk-management approach, reducing transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs). Besides risk assessments, HACT also requires assurance activities regarding appropriate use of cash transfers. These include spot checks of partner implementation, programmatic monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. The risk assessments and assurance activities should be carried out in cooperation with the other UN agencies that have also adopted HACT.

As part of the audit of the country office in 2012, OIAI audited HACT implementation in the DRC. The sample of transactions reviewed included five cash transfers made to implementing partners that were allocated $267,567 of funds from the Pooled Fund. The country office audit noted that there were improvements required in the implementation of HACT and recommended, as high priority actions, assessment of the DRC Supreme Audit Institution's ability to conduct audits, preparation of an assurance activities plan that includes programmatic monitoring, and the budgeting for and funding of the assurance activities. A recommendation is not included in this report.

Cash disbursements to RRMP partners: The audit visited Goma office and tested how cash transfers for the RRMP were managed. The RRMP provides emergency non-food items, water and sanitation, and/or emergency education in favor of the most affected communities in four main provinces (Nord Kivu, Sud Kivu, Province Orientale and Katanga). In 2011, the total budget for the RRMP was US$ 37.7 million of which the Pooled Fund allocated UNICEF US$15.5 million (about 41 percent of budget). In 2012 the budget was US$ 31.7 million and UNICEF received US$ 13.5 million (36 percent of budget) from the pooled Fund to support RRMP activities.

The standard operating procedure of the Goma zone office stipulates that implementing partners are expected to submit only the completed FACE form5 and an activity report for the liquidation of cash advances. However, RRMP partners were subjected to a more complex procedure. In addition to the FACE form and the activity report, they were required to submit an expenditure report, an expenditure statement, an expenditure certificate, a comparison budget sheet and an extract from the relevant Activity Info report. The RRMP partners were also required to submit a twice-yearly narrative report and an annual narrative and financial report. The implementing partners interviewed during the audit indicated that UNICEF reporting requirements were very heavy and time-consuming, and that in any case, they were also subject to HACT assurance activities. They also stated that their reporting obligations for Pooled Fund support through other UN organizations were much lighter.

The RRMP partners met by the audit also indicated that they experienced significant delays in the disbursement of cash advances, and provided the audit with examples of payments that had taken an average of four weeks to process from receipt of requests by the zone office. The country office stated that these delays were due either to insufficient cash in the bank or to long processes for processing cash requests and release of payments. The audit did not however determine whether these were the real causes. The zone office had a performance indicator for disbursement of cash transfers of two weeks from receipt of the request to payment. The audit reviewed the minutes of the meeting of the zone-office management team and noted that this indicator was not monitored. Delays in release of cash transfers for humanitarian action risked responsiveness to such situations and could negatively impact the cluster-leader role of the office.

Agreed action 3 (medium priority): The country office agrees to review and simplify the reporting requirements for Rapid Response to Movements of Population (RRMP) partners on the use of cash transfers, by aligning its procedures with the Harmonized Approach to Cash Transfers (HACT) guidance, and using information collected through HACT assurance activities to ensure that the cash transferred was used as per the agreed activities.

Responsible staff members: Deputy Representative and Chief of Operations. The office expects to have completed this action by 30 June 2013.

Agreed action 4 (medium priority): The country office agrees to monitor the performance indicator related to timeliness of disbursement of cash transfers, identify causes of long delays and take corrective action to address the causes identified.

Responsible staff member: Chief of Goma office. The office expects to have completed this action by 30 June 2013.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the UNICEF country office's controls and processes for the management of Pooled Fund-related activities were generally established and functioning during the period under audit.

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[5] FACE stands for Funding Authorization and Certificate of Expenditures. The FACE form is used to request funds and authorize partners to spend them; the form is also used to report and certify expenditure.

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Annex A: Methodology, definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited locations within the DRC. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of the audited area fall into four categories:

[Unqualified (satisfactory) conclusion]

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Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIA concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIA concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.