

Harmonized Approach to Cash Transfers

1. The Inter-Agency agreed Harmonized Approach to Cash Transfers (HACT) Framework which has been endorsed by the United Nations Sustainable Development Group (UNSDG) in 2014 supersedes the previous Framework adopted in 2005. The revised HACT Framework was the result of lessons learnt from past implementation and from independent assessments and joint governance reviews conducted at the UN agency levels. The full revised HACT Framework document is accessible at the [UNSDG website](#). Within UNDP, the revised HACT Framework (thereafter referred to as “HACT Framework”) including UNDP specific requirements have been approved by the Associate Administrator for implementation in UNDP effective 1 January 2015.

Rationale:

2. The original HACT Framework was first adopted in 2005 by UNDP, UNICEF, UNFPA and WFP, pursuant to United Nations General Assembly Resolution 56/201 on the triennial comprehensive policy review (QCPR) of operational activities for development of the United Nations system. The HACT Framework represents a common operational (harmonized) framework for transferring cash to government and non-governmental Partners (both Implementing Partners (IPs) and Responsible parties (RPs)), irrespective of whether these partners work with one or multiple United Nations agencies. The objective of the HACT Framework is to support a closer alignment of development aid with national priorities and to strengthen national capacities for management and accountability, with the ultimate objective of gradually shifting to national systems. It is intended to serve as a simplified set of procedures on requesting, disbursing, providing assurance, and reporting on funds to effectively manage risks, reduce transaction costs and promote sustainable development in a coordinated manner.

Key changes and applicability of revised HACT Framework:

3. The revised HACT Framework represents a shift from assurance for cash transfers derived from project level controls and audits towards a method of assurance derived from risk/system-based assessments and audits. It reaffirms a shift from a control-based to a risk-based management approach. The revised Framework provides added clarity on the integrated suite of assurance activities (financial audits, internal control audits, special audits, and spot checks) to be performed based on the results of macro and micro assessments. In approving the revised HACT Framework for implementation in UNDP Offices, the Associate Administrator has also committed UNDP to the following key elements of the Inter-agency agreed HACT Framework:
 - a. **Sole Framework for cash transfers to Partners (Implementing Partners (“IPs”) and Responsible Parties (“RPs”)):** The HACT Framework is a risk-based management approach and shall be the sole Framework applied by UNDP when transferring cash to Partners.
 - b. **Scope:** The HACT Framework shall be applicable to Partners, excluding Partners under Direct Agency Implementation modality, whether or not they are shared (joint) among several agencies.
 - c. **Applicability:** HACT Framework shall be applicable in every country and in all situations, including emergency, crisis and post-conflict countries.

Key elements of inter-agency HACT Framework:

4. The following are key elements agreed by all participating UN agencies adopting the HACT Framework:
 - a. **Governance and accountability arrangements at inter-agency level:** At the inter-agency level, the primary oversight body is the Inter-Agency Comptroller Committee and the primary inter-agency mechanism for the HACT Framework at HQ level is the Inter-Agency HACT Advisory Committee. UN Development Operations Coordination Office (UNDOCO) is the technical support unit for the UNSDG which provides the link between UNSDG discussions at HQ and the work of the UN development systems at country level. See [Annex D](#) or section 6.0 of [UNSDG HACT Framework](#) for a detailed description of the accountability and responsibilities of each roles at the agency and country level.
 - b. **Governance and accountability arrangements at Agency and country level:** In UNDP, the Administrator is accountable to the Executive Board for the implementation of HACT Framework. This includes the designation of a HQ focal point to represent UNDP at the Inter-Agency HACT Advisory Committee and to establish mechanisms for monitoring HACT implementation in their respective organizations. At the country level, the Resident Coordinator leads the UNCT in coordinating the HACT implementation. The Resident Coordinator is not directly accountable for the funds disbursed by each agency; this remains within the purview of the Resident Representatives. See [table 6](#) for the description of the roles and responsibilities of the HQ focal point. See [Annex D](#) or section 6.0 of [UNSDG HACT Framework](#) for detail description of the accountability and responsibilities of each roles at the agency and country level.
 - c. **Use of HACT Framework for Partner capacity development activities:** HACT is a risk-based approach, and the Framework identifies developing the Partner's capacity, with assistance from UNDP and other development partners, as core to managing risk. Identification of and planning to address capacity gaps (either through direct assistance by the country team or through other development partners) is an important element of the Framework. Country Offices should use HACT assessment results to help focus future capacity development activities in key thematic and mandated areas of development, and on developing the financial management capacity necessary for any Partner. However, capacity development activities do not negate the results of the micro-assessment in determining the Cash Transfer Modality (CTM).
 - d. **Evaluation of Partners and government approval:** Applying the HACT Framework does not require separate approval from the Government. Approval to evaluate a Partner is an integral part of selecting Partners and is agreed to in the Country Programme Action Plan (CPAP) or the United Nations Sustainable Development Cooperation Framework Action Plan , signed by the Government. The relevant clauses on cash transfer modalities can be found in Part VI of CPAP template, and in article V of the United Nations Sustainable Development Cooperation Framework.
 - e. **Assessment of entities responsible for delivery of programme outputs:** The Implementing Partner is typically the organization that signs the Workplan (WP) and is accountable for delivery of programme outputs. However, in some cases, the organization that signs the WP may primarily serve in a coordination role and further delegate responsibility for the implementation and management of the programme to other departments or organizations.

HACT assessment and assurance activities should be applied to the entity accountable for delivery of programme outputs.

- f. **Shared Partners and Lead Agency:** For shared Partners, the UN Country Team (UNCT) shall agree on a lead agency to manage the micro assessment and audits processes. The lead agency should be the one with the most funding being provided to the Partner (relative to each agency's overall country programme cycle budget), and the one that has sufficient internal capacity. Costs relating to the carrying out the lead agency role should **not** be charged to the other agencies.

Leveraging joint assurance activities at UNCT level:

5. Where it makes sense and is agreeable by the UN Country Team concerned, UNDP Offices are encouraged to seek opportunities to work jointly with interested members of the UNCT for the implementation of assurance activities. These include (but not limited to) having a common procurement process for the appointment of Third-Party Service providers for the different assurance activities required; leveraging existing Long-Term Arrangement (LTA) with UN Partner Agencies for the use of professional firms in the conduct of assurance activities for UNDP specific Partners.

UNDP specific HACT policy and implementation guidelines:

6. Within the overall HACT Framework, the following are the specific policy guidelines for implementing the HACT Framework in UNDP:
 - a. **Accountability:** The Resident Representative is accountable to the Administrator for applying the HACT procedures at the country level with Regional Bureau oversight and support.
 - b. **Applicability:** The prescribed procedures apply to all UNDP Offices (headquarters, regional offices and country and project offices) that transfer cash to Partners for implementation of UNDP development projects with the exception of Partners under the Direct Agency Implementation Modality.
 - c. **Financial threshold to be applied for selection of Partners for micro assessments:** For UNDP, any Partner that is expected to receive cash transfers of more than or equal to \$150,000 per year is presumed to present a material risk to UNDP and will require a HACT micro assessment by a qualified third party service provider. For Partners that are expected to receive below the \$150,000 per year threshold, a micro assessment is not required unless, at the discretion of the Office, a micro assessment is deemed necessary due to other risk considerations, e.g., the Office has no previous experience with the Partner or the operating environment is considered high risk. Offices are strongly encouraged to perform micro assessment for Partners that are below the annual threshold but are expected to receive more than or equal to \$150,000 cash in a programme cycle.
 - d. **Frequency of spot checks:** Where a micro assessment is required, the frequencies of the different assurance activities shall be determined by the Partner Risk Rating arising from the micro assessment conducted. For Partners with a "Low" Partner Risk Rating, spot checks should be conducted at least once per year excluding the year of audit¹. For Partners with a

¹The year of audit refers to the financial year in which expenditure being audited were incurred, and not the actual year when the audit is performed

“Moderate” Partner Risk Rating, spot checks should be conducted twice per year. For Partners with a “Significant” Partner Risk Rating (only Direct Payments and Reimbursement Cash Transfer Modality may be used), spot checks should be conducted twice per year. For Partners with “High” Partner Risk Rating, OFM clearance, through the respective bureau, using the HACT platform “Submit High Risk Engagement for Approval” is required to engage and issue cash transfers to the partner; otherwise, DIM audit guidelines apply if Direct Implementation or Full Country Office Support to NIM is selected. For Non-Assessed Partners, spot check is to be conducted every year when expenditure is greater than or equal to \$50,000 per year. See [Table 2](#) for guidance on the frequency of assurance activities. Offices should plan (i.e. schedule in the HACT platform) to carry out spot checks for Partners with \$50,000 or greater yearly *budget* and should conduct the spot check when Partners report (via FACE forms) *actual expenditures* of at least \$50,000 in a given year, irrespective of whether a micro assessment was carried out on the Partner. For actual reported expenditures below \$50,000, Offices may carry out spot checks at their discretion. Additional spot checks or audits may be required based on the results of the prior spot checks. A spot check is not required in the year reported expenditures are expected to be audited. The above frequency of spot checks is the minimum required; Offices, at their discretion based on other risk considerations, may carry out more spot checks as may be deemed necessary. Spot checks should be completed prior to the operational and financial closure of the project to ensure all supporting documents are available for review and any adjustments required in Quantum are made.

| | Actual Expenditure above or equal to \$50,000 per year | Actual Expenditure below \$50,000 per year |
|--|---|---|
| Assessed Partners (Budgeted Expenditure above or equal to \$150,000 per year) | Spot check is required: <ul style="list-style-type: none"> • “Low” Partner Risk Rating – at least once a year excluding year of audit • “Moderate” Partner Risk Rating – at least twice per year • “Significant” Partner Risk Rating (only Direct Payments and Reimbursement Cash Transfer Modality may be used) – at least twice per year | Spot checks may be conducted at the discretion of the Office. |
| Non assessed Partners (Budgeted Expenditure below \$150,000 per year) | At least one spot check is required per year | Spot checks may be conducted at the discretion of the Office. |

- e. **Programmatic Output Verification:** Refer to the [Programme and Project Management \(PPM\) POPP](#) for guidance on Programmatic Output Verification.

- f. **Frequency of audits:** For Partners with a “Low” and “Moderate” Partner Risk Rating, internal control audits should be conducted at least once every other year if annual expenditure exceeds or is equal to \$200,000 per year; otherwise spot checks should be conducted where reported expenditures exceed or are equal to \$50,000. For Partners with a “Significant” Partner Risk Rating, financial audits are to be conducted every year when expenditures exceed or are equal to \$200,000 per year. If a Partner receives two sequential audits with unqualified opinion with no “Significant” issues, and results of spot checks are satisfactory, the Partner’s risk rating may be adjusted, and audits and spot checks performed for the remaining periods in accordance with the adjusted Partner Risk Rating. For Partners with “High” Partner Risk Rating, OFM clearance through the respective bureau, using the HACT platform “Submit High Risk Engagement for Approval” is required to engage and issue cash transfers to the partner; otherwise, DIM audit guidelines apply if Direct Implementation or Full Country Office Support to NIM is selected. For Non-Assessed Partners, financial audits are to be conducted every year when expenses are greater than or equal to \$200,000 per year. See [Table 2](#) for the guidance on the frequency of assurance activities. Offices should plan (i.e. schedule in the HACT platform) to carry out audits for Partners with \$200,000 or greater yearly *budget* and should conduct the audits when Partners report (via FACE forms) *actual expenditures* of at least \$200,000 in a given year, irrespective of whether a micro assessment was carried out on the Partner. For actual reported expenditures below \$200,000, Offices may carry out an audit at their discretion. Audits should be completed prior to the operational and financial closure of the project to ensure all supporting documents are available for review and any adjustments required in Quantum are made.
- g. **Cash transfer Modalities:** The Cash Transfer Modalities to be adopted shall be based on the Partner Risk Rating, which is derived from the results of the micro assessment with due consideration to the specific programming context, with exceptions documented. See [Table 3](#); For Partners that are below the \$150,000 per year micro assessment threshold, an Office may select the most appropriate Cash Transfer Modality taking into consideration the guidelines in Paragraph 27 (f), any known risk factors and previous experience with the Partner.
- h. **Arrangement for reporting results of macro assessment, micro assessments, spot checks and audits:** Reports of all macro assessment, micro assessments and assurance activities should be uploaded to the [HACT platform](#) to facilitate management review by each Office, oversight monitoring by respective Regional Bureaus and compliance review by the UNDP HQ HACT Focal point.
- i. **Using Delivery Enabling Services (formerly known as Direct Project Costing) for HACT activities:** Costs related to HACT activities directly contribute to the achievement of development results and therefore should be charged to programmes and projects, - see UNDP [Planning and Paying for Delivery Enabling Services to Projects](#). When formulating project budgets, Offices should ensure they factor in these costs, including the costs of hiring third party service providers to carry out micro assessments and assurance activities.
- j. **General exclusion of Direct Implementation Modality (DIM) and Direct Agency Implementation Modality:** The HACT requirements do not apply to UNDP projects directly implemented by UNDP (DIM implementation modality) if there are no cash transfers made to Partners (responsible parties) engaged by UNDP or projects implemented solely by Partners under the Direct Agency Implementation Modality which includes other UN Agencies.

- k. **Special consideration for Responsible Party (Partner) in DIM projects:** For projects directly implemented by UNDP, the Office may need to select a Responsible Party (Partner), such as a government entity, as a partner in implementing specific project activities, using a Standard Letter of Agreement (LOA) - see [template](#). It is sometimes necessary to make cash transfers to such Partners under DIM. Where cash transfers are made, these Partners will be subject to HACT requirements including micro assessment if they meet the \$150,000 per year micro assessment threshold. Before selecting the Cash Transfer Modality (CTM), the Office must consider the results of the micro assessment of the responsible party, as well as the results of the broader macro assessment, in determining, for activities entrusted to the Partner and the cash transfer modality. The frequency of spot checks and audits necessary during the year will depend on the Partner Risk Rating as stated in (d) and (f) above.
- l. **Special consideration of Country Support to National Implementation Modality (NIM):** Financial Regulation 15.01 authorizes UNDP, when there is inadequate capacity, to provide a range of support services to Partners in support of the national implementation of UNDP programme activities, within parameters established by the Executive Board. This is known as Country Office Support to NIM. When the Partner Risk Rating² is rated as high or significant (see [Table 2](#)), it may be necessary to adopt Full Country Office Support to NIM under which UNDP would implement fully specific activities under NIM, or to adopt Direct Implementation, until the Partner is assessed as having developed adequate capacity; Where Full Country Office Support to NIM has been adopted, all project activities will be implemented by UNDP therefore HACT will not apply.
- m. **Special consideration for other Risk Assessments agreed with Donors:** Certain donors may prescribe a specific risk assessment which, in some instances, many have higher requirements than UNDP's HACT requirements e.g. Global Fund. Offices should seek the approval of the UNDP HQ HACT Focal Point in applying the donor prescribed risk assessments in place of the HACT assessments and assurance activities.

Definitions of key terms: The following are definitions of key terms used in this policy:

Partner Risk Rating:

- 7. **Partner Risk Rating** is defined as the overall Risk Assessment derived from the Micro Assessment risk rating adjusted for other available information including results of the Macro Assessment, past experience with the Partner including results of assurance activities, prior capacity assessments and micro assessments by other Agencies. The justification for adjusting the Partner Risk Rating should be documented and approved by the Head of Office or his/her designate in the HACT platform. If an issue that led to a higher risk rating (e.g., lack of adequate procurement guidelines with clearly stipulated segregation of duties) has since been addressed and validated for example through subsequent two sequential audits with unqualified opinion of a Partner, and results of spot checks of such Partner are satisfactory, the Office may consider adjusting the Partner Risk Rating downwards through the HACT platform "Summit Adjusted Risk Rating for Approval". The revision should include detailed documentation of the reasons for lowering the

² **Partner Risk Rating** is defined as the Overall Risk Assessment derived from the Micro Assessment adjusted for other available information including results of the Macro Assessment; past experience with the Partner including results of assurance activities, prior capacity assessments and micro assessments by other agencies.

risk rating which needs to be supported by assurance activities' reports that demonstrate that control weaknesses that led to the higher risk rating have been satisfactorily addressed. Such downward revision will further require the approval of the Regional Bureau for Country Offices and the Head of Office or his/her designate for central bureaus and independent units if implementing developing projects.

Assurance activities:

8. These refer to planned activities used to determine whether funds transferred to Partners were used for their intended purpose and in accordance with the annual work plan.

Assurance activities in the context of HACT include:

- a. *Spot checks*: These refer to periodic reviews, which are performed to assess the accuracy of the financial records for cash transfers to Partners and the status of programme implementation (through a review of financial information), and to determine whether there have been any significant changes to internal controls. The spot check is not an audit; hence the extent of expenditure testing is generally lower than what would be undertaken during an audit. Spot checks should be completed prior to the operational and financial closure of the project to ensure supporting documents are still available for review and any adjustments required in Quantum are made.
- b. *Scheduled audit*: These refer to systematic and independent examination of data, statements, records, operations and performances of a partner. A scheduled audit is either an internal control audit which is conducted for Partners which are rated "Low" risk and "Moderate" risk or a financial audit which should be conducted for all other Partners including non-assessed Partners. Audits should be completed prior to the operational and financial closure of the project to ensure supporting documents are still available for review and any adjustments required in Quantum are made.
- c. *Special audit*: These refer to audit performed following significant issues and concerns identified during spot checks and scheduled audits.

Cash transfer modalities (CTM):

9. These refer to the following modalities for the transfer of cash to Partners. Note that the HACT Framework does not apply to the Direct Agency Implementation modality:
 - a. *Direct Cash Transfer (DCT)*: Under this modality, UNDP advances cash funds on a quarterly basis to the Partner for the implementation of agreed upon programme activities. The Partner in turn reports back expenditure. Note that the recording of expenditures, from requisition through to disbursement, occurs in the books of the Partner. UNDP is pre-funding the activities with advances of cash.
 - b. *Reimbursement*: This is similar to the Direct Cash transfer Modality except that UNDP reimburses the funds after the Partner has itself made disbursement.
 - c. *Direct payment*: This refers to the arrangement where payments are made directly to suppliers and other third parties providing goods or services for agreed upon programme activities on behalf of the Partner upon request and following completion of the activities. Under this modality, the Partner is responsible/accountable for the project expenditure and carries out the procurement actions, but requests UNDP to make the disbursements. The Office provides accounting services and banking services to the Partner.

- d. *Direct agency implementation*: Under this modality, UNDP conducts expenditure from requisition through to disbursement with no cash being transferred to the Partner. However, the implementing partner has full programmatic control and so full control over expenditures. This would be distinguished from agency implementation where the government is involved at higher level, for example by directing policy and monitoring the expected deliverables. Note that HACT Framework does not apply to the Direct Agency Implementation Modality in recognition of the Single Audit Principle.

Irrespective of the cash transfer modality, expenditure is recorded in UNDP accounts when incurred by the partner. Therefore, it is important for UNDP Offices to ensure regular reporting from Partners.

Micro Assessment risk rating:

10. The micro assessment questionnaire results in an overall risk rating which comprises one of the following risk ratings:
 - a. Low risk: This Indicates a well-developed financial management system and functioning control framework with a low likelihood of potential negative impact on the Partner's ability to execute the programme in accordance with the Workplan (WP).
 - b. Moderate risk: This indicates a developed financial management system and control framework with a moderate likelihood of negative impact on the Partner's ability to execute the programme in accordance with the work plan.
 - c. Significant risk: This indicates an underdeveloped financial management system or control framework with a significant likelihood of negative impact on the Partner's ability to execute the programme in accordance with the work plan;
 - d. High risk: This indicates an underdeveloped financial management system and control framework with a significant likelihood of negative impact on the Partner's ability to execute the programme in accordance with the work plan.

Funding Authorization and Certificate of Expenditure (FACE) form:

11. This refers to the common form among adopting agencies for Partners to request cash transfers; report on expenditures; and certify expenditures. It serves the following purposes:
 - a. Request for funding authorization: The Partner uses the section 'Requests/Authorizations' to enter the amount of funds to be disbursed for use in the new reporting period. Against this request, the agency can accept, reject or modify the amount approved.
 - b. Reporting of expenditures: The Partner uses the section 'Reporting' to report to the agency the expenditures incurred in the reporting period. The agency can accept, reject or request an amendment to the reported expenditures; and
 - c. Certification of expenditures: The designated official from the Partner uses the section 'Certification' to certify the accuracy of the data and information provided.

Implementing Partner (IP):

12. This refers to the entity that is responsible and accountable for ensuring proper use of UNDP provided resources and implementation and management of the intended programme as defined in the Workplan (WP). Possible IPs include:
 - a. Government institutions;
 - b. Inter-governmental organizations (IGOs);
 - c. Civil society organisations (CSOs), including non-governmental organizations (NGOs); and
 - d. Other United Nations Agencies.

Responsible Party (RP):

13. This refers to the entity that has been selected by UNDP for a DIM or Country Support to NIM under a written agreement to carry out project activities and/or produce outputs using the project budget. The entity could be a Government Ministry/Institution, a UN Agency, a non-UN Intergovernmental organization, NGO/CSO, or a Private Sector firm.
14. RPs are directly accountable to UNDP in accordance with the terms of their agreement or contract signed.
15. See paragraph 10 of the [Select Responsible Parties and Grantees](#) POPP guidance in the Programme and Project Management (PPM) POPP for the different types of Legal instruments used by UNDP to engage a Responsible Party.

Partner:

16. Partner in these guidelines refers to an Implementing Agent (includes Implementing Partner/Agent and Responsible Party) who receives cash transfers from UNDP for project implementation. In Quantum, an Implementing Agent is referred to as Responsible Party and has a unique code.

Programme Execution:

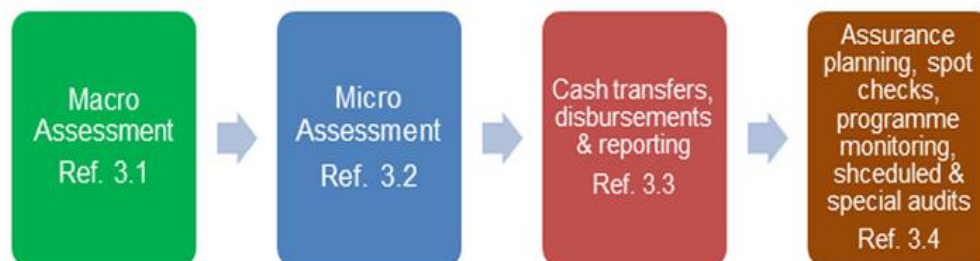
17. For UNDP programme activities carried out under the CPAP, Execution is defined as the overall ownership and responsibility for UNDP programme results at the country level. The Government, through the Government Coordinating Agency, exercises its ownership and responsibility for UNDP programme activities by approving and signing the Country Programme Action Plan (CPAP) with UNDP, or a United Nations Sustainable Development Cooperation Framework. All activities falling within the CPAP/UN Sustainable Development Cooperation Framework are, therefore, nationally executed.

Programme implementation:

18. Implementation means the management and delivery of programme activities (or projects) to achieve specified results including the procurement and delivery of UNDP programme activity inputs and their use in producing outputs, as set forth in a signed document between UNDP and the implementing partner.

Procedures:

19. The HACT Framework is composed of the four interrelated processes: (1) Macro Assessment; (2) Micro Assessment; (3) Cash transfers, disbursement and reporting and (4) Assurance planning and implementation, spot checks and special audits. These processes and related procedural steps are also detailed in the HACT Framework and cross-referenced in the table below:



What follows are overview descriptions of the 4 key interrelated HACT processes, related procedural steps as well as clarifying information on key policy concepts introduced:

| Table. Composition of HACT POPP and its corresponding reference in the HACT Framework | | | | |
|--|---|--|----------------------------------|------------------------------------|
| Ref. | Business process, sub-process and related tasks described in this POPP | Responsible Person/Office | Section in HACT Framework | Flowchart in HACT Framework |
| <i>Country Level</i> | | | | |
| 4.1 | Macro Assessment | RC & HACT Inter-Agency focal point | Section 7.2 to 7.14 | Figure 2 |
| 4.2 | Micro Assessments | HACT Focal Point for Non-shared Partners. Coordination for shared Partners by HACT Inter-Agency focal point | Section 7.15 to 7.37 | Figure 3 |
| 4.3 | Cash transfers, disbursements and reporting | HACT Focal Point/Office staff | Section 8 | |
| 4.4 | Assurance planning and implementation, spot checks, scheduled audits and special audits | HACT Focal Point | Section 9 | Figures 4, 5, 6, 7 & 8 |

Macro Assessment:

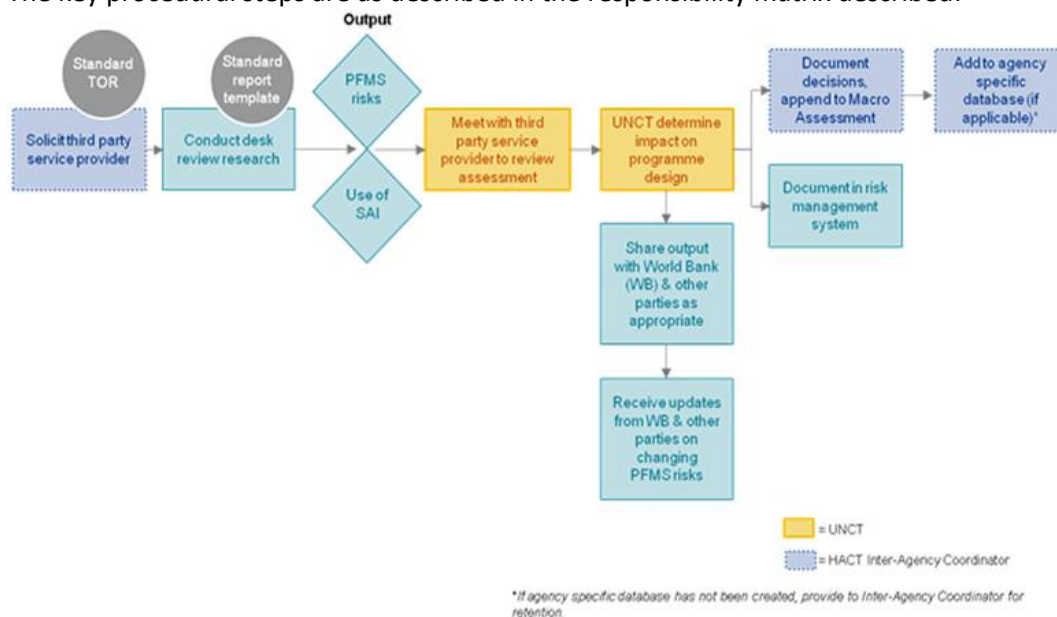
Purpose:

20. The purpose of the macro assessment is to ensure adequate awareness of the public financial management (PFM) environment within which agencies provide cash transfers to Partners, a desk review of assessments of the PFM system is conducted. In the HACT Framework PFM is broadly defined to include a range of considerations for operating in the country. It is not limited solely to the financial environment but also includes national procurement capacity, exchange rate volatility, presence of informal/black markets, etc.

Process overview (Macro Assessment):

21. The macro assessment process comprises procedures related to:
- solicit third party service provider,
 - conduct of the desk review research,
 - review of assessment results,
 - determine impact and implications of assessment on programme design,
 - document decisions and risks identified.

See Figure 2 in Section 7 of the [UNSDG HACT Framework](#) document which is reproduced below. The key procedural steps are as described in the responsibility matrix described:



22. **Key output:** There are two primary outputs of the macro assessment process:
- An outline of risks related to the use of the PFM for cash transfers to government Partners (in general) within the country, as well as other country-specific knowledge for non-governmental Partners, such as environmental conditions, exchange rate volatility, presence of black markets, etc. Note that individual Partner’s risk is determined through the micro assessment.
 - A determination on whether the government’s Supreme Audit Institution (SAI) has the capacity to undertake the scheduled and special audits of government Partners.

- c. If a macro assessment is not completed, the Office should complete the “Opt-Out” the macro assessment option in the HACT platform and ensure approved by the Head of Office or his/her designate, including a justification why a macro-assessment has not been performed (e.g. absence of recent assessments of the country’s PFM system) and what actions the Office, through the UNCT, is taking to ensure a macro assessment is completed at the earliest opportunity.
23. **Implementation guidelines:** The Head of Office or his/her designate must ensure the following:
- a. A macro assessment should be undertaken once per programme cycle per country prior to the start of a programme cycle and shall be valid for the entire duration of the programme cycle including any extension of the programme cycle, for the stated purpose articulated above noting that both the country and its Public Financial Management (PFM) are continually evolving. The Macro Assessment serves to ensure adequate awareness of the public financial management (PFM) environment which agencies provide cash transfers to Partners. It is a desk review of the assessments of the PFM system. The Macro Assessment should not be performed by internal UN team for reasons of ensuring independence. The Macro Assessment may leverage available assessments conducted by World Bank and other institutions (see examples in para 7.4 of [HACT Framework](#) document). However, these assessments are not a substitute for Macro Assessment required under the HACT Framework which has specific risk consideration checklist (see Annex 2 to Appendix 1 of the [HACT Framework](#) document).
 - b. The UN Resident Coordinator is responsible for advocating with programme government and major development partners to undertake a PFM assessment if one does not already exist.
 - c. As best practice, the UNDP Resident Representative should advocate with the RC/UNCT for the macro assessment to be carried out during the preparation of the Common Country Assessment (CCA), which in turn informs preparation of the United Nations Sustainable Development Cooperation Framework. This includes advocating that the RC/UNCT check early with the World Bank, which is the primary source for PFM assessments, as to whether such an assessment has been done; and if not advocate for one.
 - d. A HACT inter-agency focal point should be appointed and shall be accountable to the RC for managing the macro assessment process on behalf of the HACT working group to be established, including country-level procurement of service providers (where applicable).
 - e. The macro assessment shall be undertaken by a qualified third-party service provider, to ensure it is independent and reflects the required technical expertise. Offices may leverage qualified service providers where there is a retainer service arrangement established at the country, regional or global level. Using regional or global service providers may result in more consistency across assessments and greater cost efficiency compared to country-level procurement. Offices are required to communicate with UNDP HQ HACT focal point (currently at the Office of Financial Management within the Bureau for Management Services) determine the appropriate procurement option.
 - f. The cost of the third-party service provider is to be shared among the agencies implementing the HACT Framework at the UN country team level in proportion to programme cycle funding. The cost-sharing arrangement should be managed by the HACT focal point and inter-agency focal point at the UNCT level (if applicable).
 - g. The preliminary results of the macro assessment shall be discussed with all agencies, both to provide a summary of the results and to incorporate agency-specific experience and

- knowledge of the country into the final assessment as appropriate. The final macro assessment must be signed off by the Resident Coordinator on behalf of the UNCT.
- h. If UNDP is the only agency that requires a macro assessment, UNDP shall discuss with the UNCT to ensure the assessment is conducted and where/if required shall be by default lead agency, responsible for procuring the third-party service provider for the macro assessment.
 - i. When the service provider finalizes the macro assessment, each agency implementing the HACT Framework is required to document its understanding of the assessment, recognition of the identified risks and understanding of the effects at country level that are specific to the agency, including programme design.
 - j. A summary of the macro assessment should be incorporated into the Common Country Assessment. If the timing of these assessments does not coincide, the summary of the macro assessment should be communicated through the UN Sustainable Development Cooperation Framework review. The final macro assessment should also be shared with the World Bank and other parties as appropriate. Additionally, risks identified in the macro assessment should be incorporated into country-level risk management activities and logs, as appropriate.
 - k. Until a macro assessment for the current programme cycle is completed, the Country Office relies on the latest available previous macro assessment.
 - l. If no macro assessment (current or past) is available, the Country Office may use the Supreme Audit Institution (SAI) for conducting audits by complying with the Office of Audit and Investigation's (OAI) guidance on the reliance of the SAI and completing the questionnaire to assess the SAI's capacity referenced in OAI's audit annual call letter³. The OAI capacity assessment of the Supreme Audit Institution (SAI) can be performed once during the programme cycle. OAI guidance on the assessment of a SAI includes a questionnaire that needs to be properly completed, signed and uploaded in CARDS under "Supporting Documents" and provided to OAI to demonstrate that due diligence had been exercised prior to selecting the Supreme Audit Institution (SAI) to carry out the audits.
 - m. In some instances, it may become clear that it will not be possible to get a Macro Assessment done. The HACT Framework remains applicable. The Office should continue to advocate, as part of the UNCT, for a macro assessment. Pending such assessment, in the absence of a macro assessment, the Office cannot use the Supreme Audit Institutions (SAI) for any audits unless the Office has complied with OAI's guidance on the reliance of the SAI and completed the questionnaire to assess the SAI's capacity referenced in OAI's audit annual call letter as stated in (l) above.
 - n. In some cases, the Government may be unable or unwilling to support the Macro Assessment, and no relevant documents exist that address the country's Public Financial Management (PFM) capacity. The Country Office should advocate with government and development partners, such as the World Bank, for a public finance management assessment to be conducted before proceeding to the next stage.
 - o. If this is unsuccessful and a desk review by a third party is also not possible, in the absence of a macro assessment, the Resident Coordinator (after consultation with the UNCT, the Regional Bureau and the UNDP HQ Agency focal point) may decide to proceed to the next stage of HACT. In this case, the RC shall record on file the key considerations that led to this decision including efforts to advocate for such an assessment with the programme

³ Guidance on the assessment of a Supreme Audit Institution (SAI) and the questionnaire are available on OAI's intranet SharePoint site .

government. During both the Micro Assessment planning and execution phase, the Office should consider the fact that an analysis of macro level risks is not available. Offices should in the HACT platform, “Opt Out” the macro assessment that have been approved by the Head of Office or his/her designate, including explaining the reasons why a macro-assessment has not been performed (e.g. absence of recent assessments of the country’s PFM system) and what actions the Office, through the UNCT, is taking to ensure a macro assessment is completed.

Micro Assessments

Purpose:

24. The purpose of the micro assessment is to assess a Partner’s financial management capacity (i.e. Accounting, procurement, reporting, internal controls, etc.) to determine the overall risk rating and assurance activities. The risk rating may be adjusted taking into consideration other available information such as the results of the macro assessment and previous experience with the partner to arrive at a Partner Risk Rating which is used to determine the appropriate cash transfer modality to a Partner. This assessment applies to both governmental and non-governmental Partners.

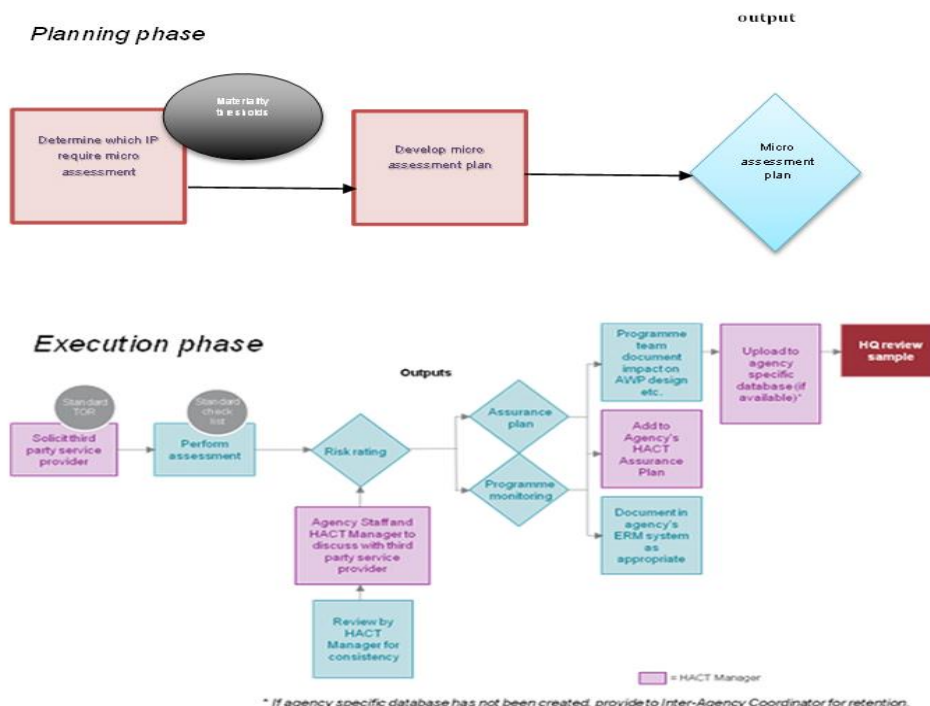
Process overview (micro assessment):

25. The micro assessment process consists of planning and executing phases. In the planning phase, the key procedures are:
 - a. Determine which Partner requires a micro assessment and prioritize the assessment;
 - b. Generate the micro assessment plan (identifying partners to be assessed) from the HACT platform and have it approved by the Head of Office or his/her designate.

At the executing phase, the key procedures are:

- c. Solicit third party service provider for micro assessments
- d. Perform micro assessment
- e. Review results of assessment and adjust the risk rating, if necessary
- f. Taking into consideration results of the Macro and Micro Assessment, establish impacts and implications on AWP design
- g. Identify assurance planning requirement
- h. Taking into consideration results of the Macro and Micro Assessment, document risks as appropriate
- i. Conduct selective review of Partners micro assessment.

See Figure 3 in Section 7 of the [UNSDG HACT Framework](#) document which has been revised to include procedural steps required for the planning phase of this process.



26. **Key output:** There are two primary outputs from the micro assessment process.

- a. An overall risk rating from the standard micro assessment questionnaire:
 - i. **Low risk** – Indicates a well-developed financial management system and functioning control framework with a low likelihood of potential negative impact on the Partner's ability to execute the programme in accordance with the WP.
 - ii. **Moderate risk** – Indicates a developed financial management system and control framework with a moderate likelihood of negative impact on the Partner's ability to execute the programme in accordance with the work plan.
 - iii. **Significant risk** – Indicates an underdeveloped financial management system or control framework with a significant likelihood of negative impact on the Partner's ability to execute the programme in accordance with the work plan.
 - iv. **High risk** – Indicates an underdeveloped financial management system and control framework with a significant likelihood of negative impact on the Partner's ability to execute the programme in accordance with the work plan.
- b. The risk rating which will form the Partner Risk Rating that will be used in formulating the Assurance plan (with information on the appropriate type and frequency of assurance activities) and cash transfer modality.
- c. Taking into consideration results of the Macro and Micro Assessment, Offices should document the identified issues and the conclusions drawn for programme and project design including any decision to adjust the Partner Risk Rating in the HACT platform.

27. **Implementation guidelines:** The Head of Office or his/her designate must ensure the following:

- a. Any Partner who is expected to receive cash transfers of more than or equal to \$150,000 per year is presumed to present a material risk to UNDP and will require a HACT micro assessment by a qualified third party service provider. Below the \$150,000 per year threshold, micro assessments are not required unless, at the discretion of the Office, a micro assessment is deemed necessary due to other risk considerations, e.g., the Office has no previous experience with the Partner, or the operating environment is considered high risk. The HACT platform should be used to generate the micro assessment plan, based on aggregated Partner project budgets for the year established in Quantum, showing which Partner needs to be assessed.
- b. When determining the estimated cash transfers per programme cycle to a Partner, salaries and related benefits for UNDP personnel charged to the project should be deducted, as the Partner will have no responsibility for them.
- c. Completion of micro assessments may be prioritized but they should be completed prior to issuance of cash transfers to a Partner. In establishing the prioritization of Partners for micro assessments, relevant information should be considered. For example, Partners that had negative past micro assessments or negative audit opinions/findings should be prioritized for a Micro Assessment. Alternatively, the Office may have documented weaknesses in previous programmes that lead it to require an assessment or, using its discretion, the Office may include a Partner for assessment based on other risk considerations.
- d. Priority ratings determine the order in which UNDP requires the Micro Assessments to be performed. The Micro Assessment should be carried out before programme funding is provided therefore, generally; the priority rating should be driven primarily by the expected start date for programme activities. Where two or more programmes have similar start dates then the prioritization should be based on the assessed relative amount of risk to UNDP.
- e. The Micro Assessment should be performed before the start of programme activities, and where this is not possible should be done as soon as possible thereafter prior to the issuance of cash transfers. If a previous Micro Assessment was done, the presumption should be that the findings remain valid unless underlying changes are identified that invalidate the findings. In situations where a Partner meets the Micro Assessment threshold (\$150,000 per year) and the selected service provider is unable to carry out the Micro Assessment due to valid reasons beyond the control of the Partner, e.g. as a result of an emergency, a crisis, unrest or security related incidents, written approval is required prior to issuance of cash transfers from the Head of Office or his/her designate for transfers up to \$150,000 and from the respective bureau for transfers above \$150,000; and for the case of central bureaus implementing projects, the approval shall be obtained from the Head of Unit for cash transfer up to \$150,000 and Head of Office for cash transfers above \$150,000. The Office should take into consideration any known risk factors in selecting the appropriate cash transfer modality based on prior experience with the partner in granting the approval and to the extent possible, the Office should minimize issuance of advances to partner whose capacity has not been assessed. The bureau should ensure the Office has justified reasons for not conducting a micro assessment or for any delays and should ensure adequate efforts are being made to conduct the micro assessment. The Office should adequately monitor the performance of the non-assessed Partner to ensure satisfactory performance.
- f. Where a Partner is below the micro assessment threshold (cash transfers less than \$150,000 per year) and therefore a micro assessment is not required, the Office should apply enhanced risk management procedures including the following:

- i. the cash transfers to the Partner should not exceed \$150,000 per year across all projects and work plans,
 - ii. select the most appropriate Cash Transfer Modality taking into consideration any known risk factors and previous performance by the Partner,
 - iii. limit the amount of activities allocated to the Partner to the minimum possible,
 - iv. for those activities allocated to the Partner, to the extent possible, direct payments or reimbursement should be used, instead of direct cash transfers,
 - v. a minimum of one spot check is required for Partners that report more than or equal to \$50,000 actual expenditures in a year,
 - vi. internal control audits are not required. Financial Audits should be performed as per OAI's Annual Audit Call Letter,
 - vii. if, due to programming considerations, direct cash transfers (advances) have to be issued, the amount advanced at any one item should be limited to the minimum dollar value workable for the project,
 - viii. the approach selected should be documented and approved by the Head of Office or his/her designate;
- g. For shared Partners, each of the agencies will apply their own micro assessment thresholds to determine if a micro assessment is required. Therefore, UNDP will participate and share costs only when a Partner meets UNDP's micro assessment threshold. In the situation where the Partners meet the threshold for 2 or more agencies, the agency with the highest estimated cash transfer to the Partners shall be the default lead agency, responsible for procuring the third-party service provider for the micro assessment.
- h. In some instances, UNDP may not participate in an assessment on a shared Partner carried out by one or more of the other agencies because it did not meet UNDP's threshold. The Office must review the findings of the assessment carried out by other agencies, when available. Should significant issues have been raised that potentially could impact UNDP's programme, the Office must seek guidance from the UNDP HQ HACT Focal Point.
- i. The Micro Assessment Plan may be adjusted by the designated HACT focal point as needed to reflect joint decisions made on shared Partners. This may result in additional Partners being selected or changes to the planned dates for Micro Assessments. The final Micro Assessment Plan must be approved by the Head of Office or his/her designate in the HACT platform and shared with the UNCT/HACT Inter-Agency focal point to coordinate assessments of shared Partners.
- j. The micro assessment shall be undertaken by a qualified third-party service provider, to ensure it is independent and reflects the required technical expertise. Offices may leverage qualified service providers where there is a retainer service arrangement established at the country, regional or global level. Using regional or global service providers may result in more consistency across assessments and greater cost efficiency compared to country-level procurement. The UNDP HQ HACT Focal Point is responsible for negotiating global Long-Term Agreements (LTAs) with qualified service providers and communicating these to the Offices. Where Long Term Agreements may not cover a specific region/country, Offices should directly engage qualified third-party service providers locally or regionally following normal UNDP procurement guidelines.
- k. The appointed inter-agency focal point at the UNCT level is responsible for assisting agency HACT focal points with coordination of micro assessments for shared Partners. This individual may take the lead in supporting the procurement expert if procurement of third-party

- providers is to be shared among agencies. For non-shared Partners, Offices should consider the possibility of using shared contracts with other agencies where it's cost-effective.
- l. The HACT focal point is responsible for managing or supporting the micro assessment process, including ensuring that the Micro Assessment Plan generated from the HACT platform is complete and has been approved by the Head of Office or his/her designate, supporting the procurement expert for procurement of third party service providers at country level (if applicable), maintaining records and coordinating communication with Partners. The HACT focal point is also responsible for ensuring that required micro assessments are performed before cash transfers are provided to Partners.
 - m. The Micro Assessment Plan should be generated from the HACT platform and at the minimum, should be updated semi-annually. The plan should be approved by the Head of Office or his/her designate in the HACT platform no later than the end of February and July of every financial year. The plan includes all Partners and highlights Partners who require a micro assessment (i.e. those that meet the \$150,000 per year micro assessment threshold) and the scheduled date or completion date if the assessment has been completed. Required micro assessments should be completed prior to issuing any cash transfers to the Partner. The Micro Assessment Plan should be generated from the HACT platform, based on approved project budgets in Quantum by Partner, once all the required information has been entered by the Office.
 - n. Micro assessments that are performed at the beginning of the programme cycle are valid for the entire duration of the programme cycle. If the assessment was performed mid-cycle, it may extend across into the next programme cycle and will be valid for up to 5 years from the date of completion. Offices should exercise reasonable discretion in determining whether to conduct a new assessment mid-cycle if the project is coming to an end within a short period of time. For example, a micro assessment conducted at the beginning of the fourth year of a five-year country programme cycle will be valid up to the end of the third year of the following country programme cycle unless there was a change in the Partner's management structure or processes and procedures as noted above. If significant changes to a Partner's organizational management structure or processes and procedures with respect to the programme are observed, a new micro assessment may be deemed necessary by the agency during the programme cycle.
 - o. The overall risk rating for each Partner should be discussed with the Partner to provide details regarding the rationale for the rating, areas for improvement (indirect capacity building) and the impact that improvements may have on overall risk ratings and related assurance activities. The specific risks identified in the micro assessment are also incorporated into country level risk management activities and logs, as appropriate.
 - p. Taking into consideration results of the Macro and Micro Assessment, Offices should document the identified risks and the conclusions drawn for programme and project design including any decision to adjust the micro assessment risk rating. This should be documented and logged in the HACT platform; refer to para (q) and (t) below for additional clarification.
 - q. The micro assessment report needs to be uploaded and approved by the Head of Office or his/her designate in the HACT platform. The results of the assessment and issues highlighted from the assessments need to be documented in the HACT platform.

- r. The overall risk ratings for Partners that require a micro assessment are reflected in the Micro Assessment section of the HACT Platform for tracking. Once the required assessments are complete, UNDP evaluates the distribution of risk ratings to ensure consistency with the risk-based approach. If a significant number of Partners are identified as significant or high risk (i.e. over 90 per cent of all Partners), UNDP re-evaluates the micro assessments performed and discusses this with the UNDP HQ focal point to maximize assurance actions taking into consideration the capacity of individual Offices.
- s. During programme implementation, additional information may become available that prompts re-evaluation of the initial risk rating. For instance, issues may arise through FACE form reviews and/or assurance activities. The Office should determine whether more assurance is required for such Partners, including whether a new Micro Assessment or other HACT assurance activities should be performed. For shared Partners, the Office should ask the HACT Inter-Agency focal point to convene a meeting of the agencies involved to agree a joint approach.
- t. Where there are issues noted from micro assessments conducted, the Office must document the issues noted and remedial actions envisaged in the HACT platform. For Partners with expected cash transfers of greater than or equal to \$1 million per annum, the micro assessment report, including the documentation of issues and action plan would need to be reviewed in the HACT platform by the Regional Bureau for Country Offices, and the Head of Office or his/her designate for central bureaus and independent units implementing development projects.

Cash Transfers, Disbursements and Reporting

Purpose:

- 28. This process provides guidance on the appropriate cash transfers modality to be applied based on the Partner Risk Rating derived from the micro assessment adjusted for other risk factors as necessary.

Process overview (cash transfers, disbursement and reporting):

- 29. The key procedures in this process are:
 - a. Finalize Partner Risk Rating.
 - b. Determine the appropriate Cash Transfer Modality.
 - c. Review and approval of FACE forms prior to disbursement.
- 30. **Key output:** The main outputs from this process are as follows:
 - a. FACE form duly signed and approved.
 - b. Cash transfer modality implemented based on results of Partner's risk assessments.

Implementation guidelines:

- 31. Three cash transfer modalities are available under HACT Framework:

- a. **Direct cash transfers** – Funds are transferred by UNDP to the Partner before the Partner incurs obligations and expenditures to support activities agreed in the work plan.
 - b. **Direct payments** – Funds are paid by UNDP directly to suppliers and other third parties for obligations and expenditures incurred by the Partner to support activities agreed in the work plan.
 - c. **Reimbursements** – Funds are provided by UNDP to the Partner for obligations made and expenditures incurred in support of activities agreed in work plan.
32. In selecting the appropriate Cash Transfer Modalities for the Partner, the following guidelines should be adhered to. Any proposed deviation from the below guidance on cash transfer modalities required per risk rating should be discussed with the HQ HACT Focal Point. For ease of reference, please also see [Table 3](#) on Cash Transfer Modalities based on Partner Risk Ratings:
- a. For Partners rated as **“Low” risk**, the choice of the Cash Transfer Modality (CTM) is determined to fit programme needs i.e. direct cash transfers, reimbursements or direct payments, or a combination of the three, are acceptable.
 - b. For Partners rated as **“Moderate” risk**, the choice of the Cash Transfer Modality (CTM) depends on the specific findings that led to the Partner Risk Rating i.e. the micro assessment, as well as other available information such as macro assessment results, past experience with the Partner, information on specific Partner strengths/weaknesses and the agency’s own capacities. Hence direct cash transfers may be applied for specific areas assessed and found to be strong, while direct payments or reimbursements would apply in weaker areas. Direct payments may be used only in selected specifically assessed areas where the Partner’s internal control Framework is assessed as adequate.
 - c. For Partners rated as **“Significant” risk**, Direct Cash Transfers are not viable. Direct Payments or Reimbursement may be used only in selected specifically assessed areas where the Partner’s internal controls were deemed adequate in the micro assessment. All other activities must be either through full Country Office Support to NIM; or the programme could be considered for UNDP Direct Implementation under which the Office may consider engaging a Partner (Responsible Party), such as a government entity or NGO, as a Partner in implementing project activities. If the estimated cash transfers to the Partner are above \$150,000 per year, a micro assessment and assurance activities on the Partner will be required.
 - d. For Partners rated as **“High” risk**, due to the Partner’s weak internal controls, no cash transfers should be issued. All activities must be implemented either through full Country Office support to NIM or UNDP Direct Implementation (DIM). Under DIM, the Office may consider engaging a Responsible Party (Partner), such as a government entity or NGO, as a Partner in implementing project activities. If the estimated cash transfers to the Partner are above or equal to HACT activity thresholds, a micro assessment and assurance activities on the Partner will be required. However, under exceptional circumstances where a Partner with a Partner Risk Rating of “High” needs to be engaged, Offices should obtain OFM clearance through the respective bureau, using the HACT platform “Submit High Risk Engagement for Approval” prior to issuance of cash transfers to the Partner.
33. Refer to the POPP for procedures for requesting cash transfers and reporting disbursements when using the standard Funding Authorization and Certificate of Expenditures (FACE) forms. FACE forms are mandatory for all Offices and replace all other documentation used by Partners for

requesting funds and reporting expenses (see Section 8.10 to Section 8.13 and Appendix VI of the [UNSDG HACT Framework](#)).

34. FACE forms should be accompanied by a completed Itemised Cost Estimate (ICE) showing the detailed activity budget including price and quantities. Click [here](#) for the link to UNDP's ICE template. FACE forms including the ICE should be submitted to UNDP no later than 15 days after the end of each quarter. Offices may agree to reasonable extensions to this deadline after consultation with OFM CFRA (cfra.kl@undp.org) but any extension should take into account the need to have the expenditure recorded before the quarterly closure of financial ledgers in Quantum. Offices should ensure FACE forms are signed by designated officials as indicated in the annual work plan. Reported expenditure in the FACE form should be recorded in Quantum in the period they were incurred by the Partner. Offices should ensure timely reporting from Partners to enable timely and accurate reporting of expenditure in UNDP accounts.

35. A designated Partner official shall be responsible for certifying the accuracy of the data provided in the FACE form. Typically, this is the same individual who signs the work plan. Certification includes:
 - a. ensuring funding request shown represents estimated planned expenditures as per the work plan, and Itemised Cost Estimates (ICE) forms are attached,
 - b. ensuring actual expenditures for the reported period have been disbursed in accordance with the work plan and previously approved Itemised Cost Estimates,
 - c. confirming supporting accounting documentation will be retained and made available to UNDP upon request for a period of seven years.

36. The Head of Office or his/her designate shall be responsible for reinforcing the concepts of the FACE form and ensuring programme staff do not modify the template provided or request supporting documentation from Partner unless it's deemed necessary. Suggestions for improving the FACE form can be coordinated through the HACT focal point or Inter-agency focal point. The review and approval of FACE forms should be documented by Offices and requires verifications of the following areas:
 - a. appropriate certification of FACE forms by the authorized official of the Partner,
 - b. liquidation of at least 80% of previously issued advances,
 - c. verification that activities, budgets and amounts reported are in line with the annual work plan,
 - d. comparison of expenditure incurred against the annual work plan,
 - e. any other checks deemed necessary by the Office in line with the perceived risk of the Partner.

37. Programme Officer, the Finance Officer and the Approving Manager should look out for potential fraud red flags when reviewing requests and reports of cash transfers from Partners and during project monitoring and assurance activities. Potential red flags which require secondary review and further investigation include:
 - Last minute changes to payment instructions prior to processing a payment including "change-back" requests;

- Request to change the banking details close to next payment whereas previous payments have been made to a different bank account;
- Where bank account name is entirely different from the supplier's name;
- Requests from unknown persons or emails to change payment instructions and supplier details including staff;
- Requests to change payment instruction purported to have been sent over the phone;
- Requests from emails which closely mimic valid email addresses but have one or a few conspicuously missing or altered letters;
- Requests marked Urgent and Confidential which request for accelerated payment for no valid reason;
- Requests to send payments to foreign jurisdiction without valid reasons;
- Duplicate invoices or invoice number which appears out of sequence with previously paid invoices of the same supplier;
- Inflated or deflated invoices i.e. prices appear abnormally high or low;
- Invoices with arithmetic errors or even (rounded) amounts;
- Supporting documents appear altered, copied, forged (e.g. not on official letter head) and appear inadequate for the specific transaction;
- Unexplained unusual high volume of payments to a specific supplier;
- Payment requests by different suppliers using the same bank account;
- Invoice details do not match payment terms, PO ref#, GRN ref #, delivery note ref # etc.;
- Multiple invoices at or just below internal threshold levels;
- Invoices lacking sufficient details e.g. no supplier address or contact details;
- Invoices that exceed approved purchase order amounts.

Offices should look out for above potential red flags when performing assurance activities conducted to verify supporting documents of reported expenditures.

Assurance activities: Planning and Implementation

Purpose:

38. The purpose of assurance activities is to determine whether the funds transferred to Partners were used for their intended purpose and in accordance with the work plan. Properly planning for and implementation of assurance activities is an integral part of HACT Framework. It is used to determine whether funds transferred to a Partner have been and are being used for their intended purpose. Assurance is obtained by carrying out the spot checks and scheduled audits as documented in the Assurance Plan.

Process Overview (Assurance activities planning and implementation):

39. There are two phases of within this process namely (i) Assurance planning and (ii) Assurance activities implementation. At the assurance planning phase, the key procedural steps are as follows:

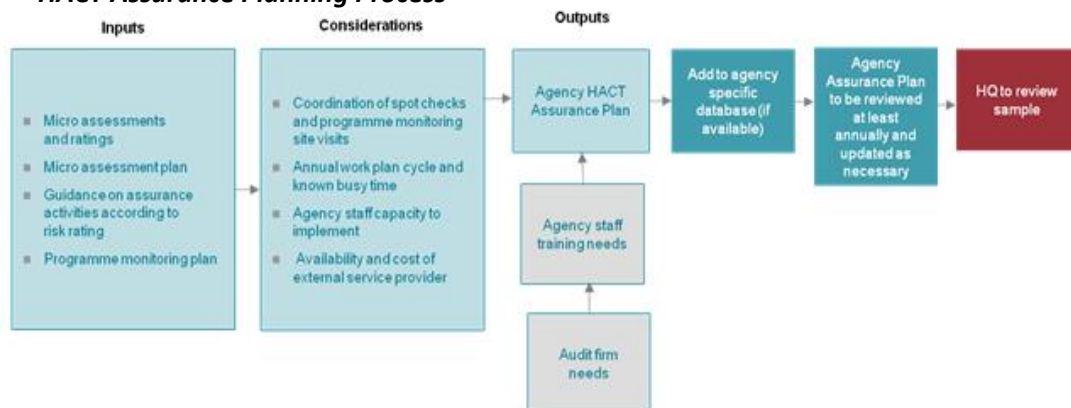
- a. review results of micro assessments including the Partner Risk Rating,
- b. generate an Assurance Plan (identifying assurance activities to be conducted during the year for each Partner from the HACT platform),
- c. Head of Office or his/her designate approves the Assurance Plan in the HACT platform.

At the assurance implementation phase, the key procedural steps are as follows:

- d. solicit third party service provider for planned assurance activities and identify qualified UNDP staff who can perform spot checks below the micro assessment threshold; seek written bureau approval for the identified staff,
- e. upload results of assurance activity conducted to the HACT platform,
- f. conduct review of implementation of Assurance Plan including the issues highlighted,
- g. follow up on findings of the assurance activities,
- h. update Assurance Plan to reflect the results of completed activities.

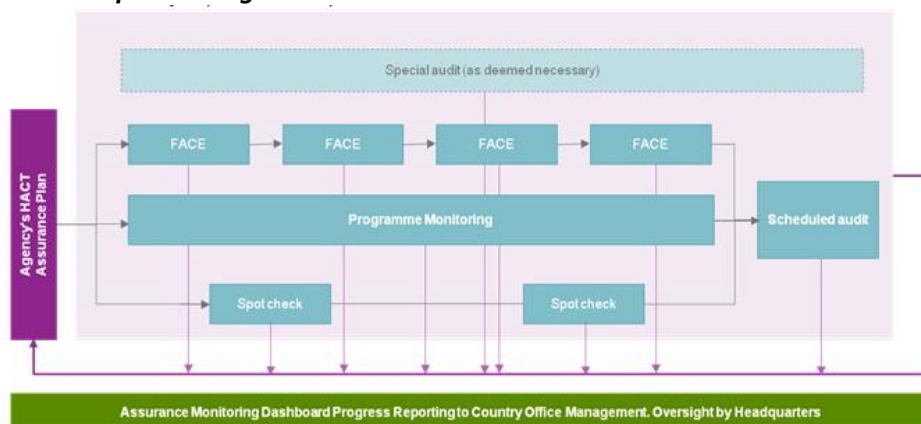
See figures below which were reproduced from Figure 4 and 5 of the UNSDG HACT Framework.

HACT Assurance Planning Process



* If agency specific database has not been created, provide to Inter-Agency Coordinator for retention.

Implementing HACT Assurance Activities



Key outputs: The key outputs from this process are:

- a. HACT Assurance plan
- b. Results of Assurance activities conducted.

40. Implementation guidelines: The Head of Office or his/her designate Office must ensure the following:

- a. The Annual Assurance Plan should be generated from the HACT platform and at the minimum, should be updated semi-annually and reflects the schedule dates of the assurance activities. The plan should be approved by the Head of Office or his/her designate in the HACT platform no later than the end of February and July of every year;
- b. Planning of assurance activities shall be guided by the Partner Risk Ratings;
- c. Assurance activities shall comprise of (1) Periodic *spot checks* of the Partner's financial records of cash transfers; and (2) *Scheduled and special audits (financial or internal control)* of the Partner's financial records and financial management systems of internal controls related to the programme;
- d. Spot Checks should be performed by a third-party service provider for Partners. Spot checks for Partners below the micro assessment threshold may be performed by internal staff where written approval is required from the respective Regional Bureaus for Country Offices and Head of Office or his/her designate for central bureaus and independent Offices that implement development projects. The bureaus and independent Offices shall give approval after confirming the internal staff is independent of the project and has relevant experience, qualification and independence. To prevent conflict of interest and self-review, UNDP staff are not permitted to conduct spot checks on projects they are responsible for. Refer to Appendix IX in the [UNSDG HACT Framework](#) for further guidance on the spot check performed by UNDP staff.
- e. If an Office chooses to perform financial audits for a Partner, it will not be required to perform spot checks during the year of audit. The decision to perform financial audits in place of spot checks should be reflected in Assurance Plan;

- f. Assurance activities should be scheduled prior to the operational and financial closure of the project to ensure all supporting documents are available for review and any adjustments required in Quantum are made.
- g. In developing the Assurance Plan, the HACT Focal Point should review [Table 2](#) for UNDP specific guidelines on the scope, frequencies and types of assurance activities required for each Partner based on the Partner Risk Rating. The coverage of the assurance activities should commence from the period of the last performed spot check or audit.
- h. When developing the Assurance Plan for each Partner, the HACT focal point should refer to Section 9.11 and Appendix V of the [UNSDG HACT Framework](#). Offices can generate an Assurance Plan from the HACT platform;
- i. When selecting the Cash Transfer Modality for new projects, the Office must consider the results of the macro assessment as well as any micro assessment of the Partner;
- j. The HACT focal point should ensure the planned activities in the Assurance Plan are completed and the HACT platform updated to reflect the results;
- k. Where there are issues noted from assurance activities conducted, the Office must document in HACT platform the issues noted and action taken e.g., change in the Partner's risk rating, schedule additional assurance activities etc. For Partners with expected cash transfers of greater than or equal to \$1 million per annum, the results of the assurance activities would need to be reviewed by the Regional Bureau for Country Offices and the Head of Office or his/her designate for central bureaus and independent units which implement development projects. Issues that have been highlighted from the assurance activities (spot checks and audits), needs to be satisfactorily addressed. Any open assurance activities issues aged more than 6 months listed in HACT platform need to be followed up by regional bureau.
- l. When issues noted from the assurance activities were regarding the validity of the reported expenditures, the programme officer should:
 - i. seek adequate explanation from the Partner to the satisfaction of the Office and agree procedures that need to be put in place, including capacity building measures, to avert future issues,
 - ii. perform additional assurance activities to verify there are no more occurrences of invalid or unsupported payments,
 - iii. consider performing alternative procedures e.g. verification of assets, seek confirmation from 3rd parties who might have been party to the transaction etc.,
 - iv. collaborate information provided by the partner with other sources e.g. if records were destroyed by a force majeure event such as floods or earthquake, review public information sources to collaborate the information,
 - v. in case of suspected fraud, request for valid explanations for usual payment instructions, contact suppliers to verify supporting documents that appear suspicious or altered, request for additional supporting documents where necessary, request for payment confirmations from valid supplier contacts on file, escalate the issue to your manager/supervisor if adequate explanation assurance is not obtained.

- If the explanation provided and alternative procedures performed provide adequate assurance to the Office, the Office should prepare a Note to File detailing the alternative procedures performed, and conclusions arrived at. The Note to File should be signed by the Head of Office or his/her designate. If the explanations provided and alternative procedures performed do not provide adequate assurance, the Office should reject the expenditures and request the partner to refund any cash that UNDP might have advanced. The Office should ensure rejected items are not resubmitted as part of future reporting and are absorbed by the Partner. If assurance activities consistently indicate the Partner is reporting invalid expenditure which cannot be explained or confirmed through alternative procedures, the Office should consider changing the implementation modality to DIM or Country Office Support to NIM to manage the risk. Where the Partner cannot absorb expenditure rejected by UNDP, the Office should exercise due diligence and pursue all avenues to ensure financial liability is not assumed by UNDP. If the case that it cannot be favourably resolved, and the contentious amount is deemed irrecoverable, the Office should fully document all actions taken to recover the funds, including description, causes and responsibility and this should be signed off by the Head of Office or his/her designate and approved by the Regional Bureau (for country offices and regional hubs) who should assess the need for a write-off and ensure a request for write-off is submitted to OFM/CFRA for assessment (cfra.kl@undp.org) in line with the Write-Off POPPs.
- m. In considering a change of a Partner Risk Rating, Offices should consider the practicality of changing the Cash Transfer Modality mid-stream, and/or applying alternate assurance steps that may be possible in those cases. The Resident Representative shall make a management decision on the practical approach to take while minimizing UNDP's exposure;
 - n. The purpose of conducting spot checks is to assess the accuracy of the financial records for cash transfers to the Partner and the status of programme implementation (through a review of financial information), and to determine whether there have been any significant changes to internal controls. The spot check is not an audit. See Section 9.17 to Section 9.22 of the [UNSDG HACT Framework](#) for guidelines for spot checks. See [Annex A](#) for additional UNDP specific guidance related to the conduct of spot checks including alternative to the use of third party service providers for spot checks as well as approach for the selection of transactions to be tested involving shared Partners and non-shared Partners;
 - o. The purpose of a scheduled audit is to determine whether the funds transferred to Partners were used for the appropriate purpose and in accordance with the work plan. See [Annex B](#) for additional UNDP specific guidance related to the conduct of internal control and financial audits including criteria to be used in deciding which type of audits are required and the triggers which prompt a change in the Partner's risk rating arising from results of internal control and financial audits.

REFERENCES AND TEMPLATES

[HACT platform](#)

[UNSDG HACT Framework](#)



[UNSDG Consolidated Annexes to the Cooperation Framework Guidance](#)

[UNDP Financial Regulations & Rules](#)

[HACT Tables 1-6](#)

[HACT Annexes A-D](#)

[Micro Assessment Questionnaire](#)

[Office of Audit and Investigations Annual Audit Call Letter](#)

[Questionnaire to Assess Supreme Audit Institution's Capacity](#)

[UNDP Itemized Cost Estimate Template](#)