



TERMS OF REFERENCE
for
Conducting Micro Assessments
under the programme cycle of One Plan 2012-2016

I. Background

1. In April 2005, the United Nations Development Group (UNDG) formally released the Harmonized Approach to Cash Transfer (HACT) to national Implementing Partners¹ (IPs) which, for easy reference, can be accessed through the website of the UNDG (<http://www.undg.org> ⇒ *Programming Reference Guide*) and United Nations in Viet Nam (<http://www.un.org.vn> ⇒ *Publications* ⇒ *One UN Documents* ⇒ *One Set Management Practices*). This approach applies to the three UN Agencies (UNDP, UNFPA, and UNICEF)² and other UN Agencies that choose to adopt it. It calls for an upfront assessment of the programme country's public financial management system (thereafter called "macro assessment") and one of the financial management capacity of each IP (thereafter called "micro assessment"). HACT became effective in Viet Nam as of January 2007. Being one of the key elements of HACT, micro assessment assesses the risks related to cash transfers to the partner and is done in every programme cycle prior to the signature of the Annual Work Plan, or whenever a significant change in the IP's organizational management is noticed. Micro assessment is conducted for IPs that receive or are expected to receive cash transfers above the annual amount of US\$ 100,000 from a UN Agency or combined from all UN Agencies.

2. The purposes of the micro assessment are:

2.1. *Capacity development objective:* It supports the three UN Agencies (UNDP, UNFPA, and UNICEF) and the Government to identify the status, strengths and weaknesses in the NIP's capacity for financial management and areas for capacity building by the Government and other partners.

2.2. *Financial management objective:* It assists in the identification of the most appropriate cash transfer modalities, procedures, and scale of assurance activities to be applied by the UN Agencies and the Government for the NIP.

3. With the technical support from a consulting firm, the three UN Agencies in Viet Nam (UNDP, UNFPA and UNICEF) conducted the macro assessment for Viet Nam in 2006. They also conducted two pilot joint micro assessments in 2007, with the Ministry of Health and the General Statistical Office. Useful lessons were learned from this experimental effort to improve the TOR, the Survey Questionnaire and the steps which were used by the three

¹ Implementing Partner (IP) is the legally established entity that is selected by the Government and the UN and documented in the Detailed Project Outline to directly manage and implement a programme or project supported by a UN Agency. The IP assumes full responsibility and accountability to the relevant authority of the Vietnamese Government and the UN Agency, for the production of the outputs expected from the Agency-supported programme/project and for the effective use of the resources provided to it by the Agency (HPPMG, May 2010, p.16)

² The three UN Agencies (UNDP, UNFPA, and UNICEF) made up three of the four ExCom Agencies present in Viet Nam, while the fourth one (i.e. WFP) ceased its operations in the country in 2001. The terminology of "ExCom Agencies" has no longer been used by UNDG.

UN Agencies to undertake another two joint micro assessments in 2008, with the Ministry of Planning and Investment and the Ministry of Labour, Invalids and Social Affairs. Subsequently during 2009 - 2011, six other joint IPs of the three UN Agencies were micro-assessed. They were Ministry of Agriculture and Rural Development (MARD), the Office of the National Assembly (ONA), the Provincial People's Committee of Kon Tum and the Provincial People's Committee of Ninh Thuan, the Ministry of Justice (MOJ) and the Ho Chi Minh City People's Committee.

Overall lessons learned from the conduct of micro assessments are about the needs for the National Implementing Partners (NIPs) to be fully aware of the importance of and be systematically involved in the exercise, for the consulting firm to carefully study the UN's HACT guidelines and fully understand the micro assessment methodology, and for the UN and the Government to improve their overall guidance and coordination. Correspondingly, assurance activities including scheduled audits, financial spot-checks and continued capacity building, have been implemented for micro-assessed IPs and other IPs since 2009.

4. The year 2012 marks the start of the programme cycle of UN support to Viet Nam, i.e. the One Plan 2012-2016 and the UNDP/UNFPA/UNICEF Common Country Programme Document 2012-2016. This is the premise for the three agencies to identify IPs for this programme cycle and devise a plan for micro-assessments of selected IPs.
5. Against the above background, for the programme cycle 2012-2016, the three UN Agencies (UNDP, UNFPA, and UNICEF) plan to undertake the micro assessment of both joint and individual IPs³ as per the Annex 1 "List of IPs for micro assessment under the programme cycle of One Plan 2012-2016". These IPs are expected to receive cash transfers above an annual amount of US\$100,000 from one agency or combined from the three Agencies in this programme cycle.

II. Deliverables

6. For each of the NIPs to be assessed, the consulting firm should submit a final report (both English and Vietnamese versions) with the following elements:
 - An overall risk rating (H-High risk; S-Significant risk; M-Moderate risk; L- Low risk) of the NIP's financial management capacity.
 - Risk ratings for funds flow, staffing, accounting policies and procedures, internal audit, external audit, reporting and monitoring and information systems.
 - A summary of the financial management assessment of the NIP.
 - A description of the NIP including the physical address, phone numbers, fax numbers, web sites and general e-mail addresses.
 - A description of the accounting standards applied, and whether they are defined at the NIP level.
 - A description of any specific internal control weaknesses noted in financial management, in terms of both compliance to Government rules and regulations, and management practices at the NIP level/authority.
 - A description of any specific internal control weaknesses in reference to international standards that are derived from the normative environment of the NIP, and which are not under its control/authority.

³ Joint Implementing Partners (Joint IPs) are those which receive cash transfers from at least two UN agencies and Individual Implementing Partners (Individual IPs) are those which receive cash transfers from only one UN agency in the programme cycle

- Recommendations for monitoring and assurance activities to address or compensate for the weaknesses in the short term.
- Recommendations to resolve/eliminate the internal control weaknesses noted, including short and medium-term capacity development measures, at the NIP level.
- All recommendations should focus on actions, adjustments, arrangements, or the like, that are on the line agency's authority to implement.
- Completed Annex 3 on Financial Management Questionnaire.
- List of people met and interviewed during the conduct of the micro assessment at each NIP.

7. In the situation where a number of Implementing Partners belongs to a line ministry, the consulting firm will prepare a brief report for a line ministry. This brief report summarizes the overall risk rating, findings on financial management, recommendations to resolve or eliminate any internal control weakness encountered by individual Implementing partners that have been assessed.

8. An executive summary of the whole micro assessment exercise (or of each batch; maximum 4 - 5 pages) enclosed with a consolidated summary of the financial management assessment of all of the related NIPs micro-assessed.

III. Scope

9. The primary target group for the micro assessment is the national Implementing Partner who is (i) identified in the Detailed Project Outline as NIP and (ii) the direct recipient, manager and executor of the cash transfers from the UN agencies for their supported programme/project to NIP. In addition, the NIP may wish to suggest other relevant department(s) that has/have a role to play in managing and/or in monitoring the flows of ODA into the NIP.

10. The micro assessment will provide an overall assessment of each NIP's financial management capacity and review the flow of funds, staffing, accounting policies and procedures, internal audit, external audit, reporting and monitoring and information systems. It should be noted that the assessment should focus on compliance with policies, procedures, regulations and institutional arrangements that are issued by both the Government and the NIP itself, and should also offer recommendations to the NIP for reducing, to the extent possible, any gap towards international standards. Since there were some NIPs, which were micro-assessed in the last One Plan cycle 2006-2011 (please refer to Point 3, Section I for details), the assessment this time should take into account the micro assessment reports recently produced for these NIPs in order to better balance the efforts invested in different parts of the questionnaire.

IV. Methodology

11. The micro assessments will be coordinated by the UN Resident Coordinator's Office (UNRCO) on the UN side and the Ministry of Finance (MOF) on the Government side. Each of the parties involved, including the NIP itself, will appoint a focal point to ensure effective internal support to the consulting firm and external coordination with the other parties. In undertaking its day-to-day field activities, the consulting firm will report to the focal points of the UNRCO and the MOF who will in turn consult with the other party(s) to seek necessary guidance and support.

12. The consulting firm should utilize “Annex 3: Financial Management Questionnaire” for each NIP. It will ask questions of direct relevance to the targeted units/departments as referred to in Paragraph 9 above. In completing the questionnaire, it should assess the internal control system of the NIP generally and particularly of the UN-supported programme(s)/project(s) for which the NIP is responsible, with equal emphasis on (i) the effectiveness of the system in providing the programme/project management with useful and timely information for the proper management of the programme(s)/project(s) and (ii) the general effectiveness of the internal control system in protecting the assets and resources of the programme(s)/project(s). In the latter aspect, the risk rating for items that are out of the control of the NIP because of the regulatory environment of the country will be that of the overall Macro assessment.

13. The consulting firm should have full and complete access to all records and documents related to ODA programme(s)/ projects that provide answers to the 8 sets of questions raised in Annex 3, namely questions about (i) the NIP, (ii) Funds flows, (iii) Staffing, (iv) Accounting policies and procedures, (v) Internal audit, (vi) External audit, (vii) Reporting and monitoring, and (viii) Information systems. The records and documents may include books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts, and all employees of each NIP. The consulting firm should be advised that it has a right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the project management. If the consulting firm may not have unrestricted access to any records, persons or locations during the course of the assessment, this restriction should be clearly defined, with reasons, in the report. It should be noted that some of the questions in Annex 3 are relevant to the finance and accounting department, while others to the direct recipient agency.

14. The consulting firm should give special attention to records and documents relating to the NIP’s issues, experiences and lessons if any, with regard to the implementation and management of programmes/projects that are funded by ODA in general and by UN assistance in particular.

Following the completion of each micro assessment, the consulting firm will complete a draft report with the elements outlined in Section II of this TOR, for each of the NIPs assessed. It will then share the draft report with the NIP and with the UNRCO and MOF. The UNRCO will share the draft report with the relevant UN Country Office(s) (UNCOs) while the MOF may share it with other Government Aid Coordinating Agencies. The NIP, the UNCO(s) and the MOF will review the draft report and send their official comments to the consulting firm so that the latter can finalize the report. Such a response should include (i) NIP Management’s comments/clarifications on each of the contractor’s findings and (ii) their suggested follow-up actions to improve the NIP’s financial management capacity generally and the effectiveness of UN assistance to it particularly. Upon the UN Country Team’s approval, the final report will be officially shared with the IPs for appropriate follow-up actions when required.

15. The suggested steps for the consulting firm to undertake the micro assessment, mobilize maximum participation by all the parties and enhance the interaction between them are shown in Annex 2 of this TOR.

16. The suggested Guidelines on Risk Grading to the Financial Management Capacity of Implementing Partners are attached as Annex 4 of this TOR.

IV. Management arrangements

17. The consulting firm will work closely with the Head of UNRCO, UN Programme Support Working Group (UN PSWG), MOF, selected IPs and concerned parties in order to implement the assessments and achieve the required results. The consulting firm will report directly to the Head of UNRCO who is also the Chair of the UN PSWG on the implementation progress.

18. Other practical arrangements, including coordination and guidance, are described clearly in the “Suggested steps to conduct micro assessments’ in Annex 2 of this TOR.

V. Qualifications of the consulting firm

19. General expertise and qualifications of the consulting firm:

- Strong and relevant expertise and qualifications
- Good public reputation in the area of business.
- At least 5 year experience in applying international standards for auditing, either ISA or INTOSAI audit standards.
- Experience in conducting prior micro assessments/audits for UN Agencies will be an advantage.
- Familiarity with the policies, rules and procedures of the agencies of United Nations and the Government of Vietnam respectively is an asset.
- Good internal quality assurance system.
- Consulting firm with recognized professional qualifications and suitable experience with ISA or INTOSAI standards, including experience in reviewing similar entities.
- Proven record of the firm’s human resources including number for each level of professional staff, partner/ staff ratio.
- Availability of qualified and experienced capable staff with good English and Vietnamese language proficiency to undertake the assessments.
- CV of all members of the assessment team should be provided, with details on assessments or audits carried out by the relevant staff, including on-going assignments indicating responsibilities assumed by them, and their qualifications and experience in undertaking audits.

Further details can be referred to under Technical Evaluation criteria

VI. Duration of assignment and payment terms

20. The actual duration for each micro assessment for each IP is estimated to be maximum 5 working days subject to project size and/or Implementing Partners including time allocations for briefing/ debriefing sessions, desk review of reference documents, conduct of interviews/ discussions with relevant parties, and drafting and finalization of the micro assessment report. The actual payment will be based on the number of assessed IPs. The first batch of micro assessment will be conducted from January 2013 to April 2013 for Implementing Partners with Detailed Project Outline (DPOs) having been approved by the Government before November 2012 and the second batch will be continued for remaining Implementing Partners with DPOs being developed or being processed for approval by the Government and is expected to be in March 2013.

21. Payment terms:

- 60% of the contract value will be paid upon the UN Agencies' satisfactory acceptance of draft micro assessment reports.
- 40% of the contract value will be paid upon the UN Agencies' satisfactory acceptance of the final micro assessment reports.

Note: UNDP will make payment to the contractor for the assessment of UNDP IPs and joint IPs in the list of IPs attached to the TOR whereas UNFPA and UNICEF will directly make payment to the contractor for the assessment of their own IPs.

Annexes:

Annex 1: List of IPs for micro assessment under the programme cycle of One Plan 2012-2016

Annex 2: The suggested steps to undertake the micro assessment

Annex 3: Financial Management Questionnaire

Annex 4: Suggested Guidelines on Risk Grading to the Financial Management Capacity of Implementing Partners

Annex 1: List of IPs for Micro Assessment under the programme cycle of One Plan 2012-2016

Line Agency	National Implementing Agencies		
	UNFPA	UNDP	UNICEF
Joint Implementing Partners			
Ministry of Planning and Investment	1. General Statistics Office (GSO) 2. Foreign Economic Relations Department	1. Labor, Culture and Social Affairs Department; 2. General Statistics Office 3. Foreign Economic Relations Department	1. Labor, Culture and Social Affairs Department
Ministry of Labor, Invalids, and Social Affairs		4. Social Protection Department	2. Social Protection Department
Ministry of Health	3. Department of Planning and Finance		3. Department of Planning and Finance
Ninh Thuan People's Committee	4. Department of Planning and Investment		4. Department of Planning and Investment
Kon Tum People's Committee	5. Department of Planning and Investment		5. Department of Planning and Investment
UNFPA - Individual Implementing Partners			
Ministry of Labor, Invalids, and Social Affairs	6. Department for Social Evil Prevention		
Ministry of Culture, Sports and Tourism	7. Family Department		
Ministry of Home Affairs	8. Department of Youth Affairs		
National Assembly	9. Parliamentary Committee for Social Affairs		
Quang Binh People's Committee	10. Department of Health		
Hai Duong People's Committee	11. Department of Health		
Ben Tre People's Committee	12. Department of Health		
Viet Nam Farmers' Union	13. Department of Social Affairs, Population, and Family		
UNICEF - Individual Implementing Partners			
Ministry of Labor, Invalids, and Social Affairs			6. Child Protection and Care Department

Line Agency	National Implementing Agencies		
	UNFPA	UNDP	UNICEF
Ministry of Education and Training			7. Ministry of Education and Training
Ministry of Agriculture and Rural Development			8. National Center of Rural Water Supply and Sanitation (CERWASS)
Ministry of Justice			9. Office of Ministry of Justice
Ho Chi Minh People's Committee			10. Department of Labour, Invalids and Social Affairs
National Assembly			11. Committee for Culture, Education, Youth and Children
Dien Bien People's Committee			12. Department of Planning and Investment
Dong Thap People's Committee			13. Department of Planning and Investment
An Giang People's Committee			14. Department of Planning and Investment
Lao Cai People's Committee			15. Department of Planning and Investment
Gia Lai People's Committee			16. Department of Planning and Investment
UNDP - Individual Implementing Partners			
Ministry of Planning and Investment		5. Department of Science, Education, Natural Resources and Environment (DSENRE)	
Ministry of Foreign Affairs		6. Department of Multilateral Economic Cooperation 7. Department of International Organizations	
Ministry of Industry and Trade		8. General Directorate of Energy 9. Vietnam Chemicals Agency 10. Industrial Safety Techniques and Environmental Agency (ISEA)	
Ministry of Home Affairs		11. Ministry of Home Affairs	

Line Agency	National Implementing Agencies		
	UNFPA	UNDP	UNICEF
Ministry of Agriculture and Rural Development		12. Management Board for Agriculture Projects (APMB) ⁴ 13. International Cooperation Department 14. Directorate of Water Resources/ Disaster Management Center 15. Vietnam Administration of Forestry 16. Department for Science, Technology and Environment	
Ministry of Justice		17. International Cooperation Department	
Ministry of Natural Resources and Environment		18. Office 33 19. Vietnam Environment Administration 20. Department of Meteorology, Hydrology and Climate Change 21. Institute of Strategy and Policy on Natural Resources and Environment (ISPONRE)	
Ho Chi Minh People's Committee		22. Committee for Poverty Reduction and Increase of Better-off Households	
National Assembly		23. Economic Committee of the National Assembly 24. Committee for Financial and Budgetary Affairs of the National Assembly 25. Institute for Legislative Studies of the National Assembly	
Vietnamese Academy of Social Sciences (VASS)		26. Department of International Cooperation	
Committee for Ethnic Minority Affairs		27. EM Policy Department	
Vietnam Lawyers Association		28. Viet Nam Lawyers Association	
Bac Giang People's Committee		29. Department of Home Affairs	
Can Tho People's Committee		30. Department of Home Affairs	

⁴ The Management Board was established at the Decision No. 100/1999/QĐ-BNN-TCCB, dated 03 July 1999 by Minister of Agriculture and Rural Development, further detailed can be seen at the link http://apmb.gov.vn/index.php?option=com_content&view=article&id=47&Itemid=82

Line Agency	National Implementing Agencies		
	UNFPA	UNDP	UNICEF
Da Nang People's Committee		31. Department of Home Affairs	
Ha Tinh People's Committee		32. Department of Home Affairs	
Viet Nam National University		33. University of Economics and Business	
Ministry of Construction (MOC)		34. Ministry of Construction	
Ministry of Science and Technology		35. Ministry of Science and Technology	

Note: The Implementing Partners highlighted in red in the table are those with Detailed Project Outlines being developed by agencies or awaiting official approval by the Government. These IPs will be micro-assessed at the second batch expected in March 2013 (Refer to Paragraph 20, page 5)

Annex 2: The suggested steps to undertake the micro assessment

The following key steps are suggested for the consulting firm to conduct a micro assessment and to encourage the maximum participation by all the parties in the exercise.

1. Drafting and finalizing the TOR and annexes

In consultation with the relevant UN Country Offices (UNCOs) and the MOF, the UNRCO takes the lead responsibility for drafting or improving the TOR, establishing the list of eligible NIP(s), developing the tentative time schedule and preparing other annexes for the micro assessment.

Once the TOR, the list and annexes have been agreed upon between the parties, the UNRCO formally forwards to the MOF the TOR, the list of eligible NIP(s), the tentative schedule and annexes for the micro assessment.

2. Announcing the micro assessment to the NIP

The MOF formally sends to the eligible NIP(s) the TOR, the tentative schedule and annexes for the micro assessment and request the latter to initiate necessary preparatory work for the exercise.

3. Preparing for the micro assessment

The NIP proceeds to nominate a focal point for the micro assessment, review the TOR, tentative schedule and annexes, and collect reference documents for the exercise (e.g. internal guidelines on financial management/ accounting issued by the NIP, organizational charts of relevant units, project reports of various types)¹. Thereafter, the NIP should formally inform the MOF of the name of its focal point, the firm schedule and other practical arrangements for the exercise.

The MOF consolidates responses from the eligible NIP(s) to the UNRCO. If necessary, the MOF could meet with representatives of the NIP(s) to brief them on all relevant aspects of the micro assessment and guide them on how to do such preparatory work.

The UNRCO should take the following main preparatory actions:

- a) Consolidating the time schedule for the micro assessment(s), taking into account the responses from the eligible NIP(s);
- b) In consultation with the MOF, initiating the recruitment of a qualified consulting firm;
- c) In coordination with the UNCOs, collecting available background documents, e.g. relevant corporate policy guidelines, and previous audit reports, assurance reports, periodical progress/review/financial reports, etc... relating to UN-supported projects for which the NIP(s) is/ are responsible.
- d) If necessary, joining the MOF in the briefing session with NIP representatives.

4. Conducting the micro assessment

The UNRCO convenes a briefing session with the consulting firm to discuss/clarify any issues relating to the TOR, the updated schedule and reach agreement on practical arrangements for the assignment. It should share with the consulting firm the background documents that have been collected.

The consulting firm proceeds to work directly with the NIP(s) to confirm the appointments with responsible NIP staff, conduct the desk research/ interviews/ consultations with them, and draft the micro assessment report.

5. Reviewing and finalizing the Micro Assessment Report

The consulting firm sends the Draft Micro Assessment Report to the NIP, the UNRCO and the MOF. The UNRCO shares the draft report with the UNCOs while the MOF shares it with other Government Aid Coordinating Agencies. The NIP, the UNCO and the MOF review the draft micro assessment report and send its comments to the consulting firm.

The consulting firm proceeds to finalize the draft report and submits the Final Micro Assessment Report to the NIP, the UNRCO and the MOF.

6. Notifying the outcomes of the micro assessment and agreeing on follow-up actions

The UNRCO organizes a debriefing meeting with the consulting firm, the UNCOs, the MOF and, if necessary, other Government Aid Coordinating Agencies to review the findings, conclusions and recommendations of the Micro Assessment Report, reach agreement on appropriate cash transfer modalities, the frequency of assurance activities as well as other necessary follow-up measures (including capacity building activities) that will be applicable to the NIP(s).

The UNRCO formally announces to the UNCOs and the MOF the outcomes of the micro assessment and the conclusions of the debriefing meeting on the agreed cash transfer modalities, assurance activities and other follow-up measures that will be applicable to the NIP(s).

The MOF formally notifies the NIP(s) on the conclusions of the debriefing meeting on the agreed cash transfer modalities, assurance activities and other follow-up measures that will be applicable to the NIP(s).

Annex 3: Financial Management Questionnaire

IP: _____

Date: _____

Summary of Risks related to the Financial Management Capacity of IP					
Tested Subject Area (see subsequent pages for questions for each subject area)					
	Risk Assessment				Comments
	<i>H</i>	<i>S</i>	<i>M</i>	<i>L</i>	
1. NIP					
2. Funds Flow					
3. Staffing					
4. Accounting Policies and Procedures					
5. Internal Control					
6. External Audit					
7. Reporting and Monitoring					
8. Information Systems					
Inherent Risk					
[List major specific issues identified in the assessment of the country's public financial management system (macro-assessment), or specific risks related to the nature or operation of the NIP]					
Overall Risk Assessment		<i>H</i>	<i>S</i>	<i>M</i>	<i>L</i>

H - High S - Significant M - Moderate L - Low

Subject Area	National Implementing Partner
1. General	
1.1. Has the NIP received UN resources in the past?	√
1.2. Does the NIP have statutory reporting requirements with regards to ODA resources? Please describe.	√
1.3. Is the governing body for the project independent from the implementing body?	√
1.4. Is the organizational structure appropriate for the work to be carried out under UN cooperation?	√
2. Funds Flow	
2.1. Can the NIP receive and transfer funds?	√
2.2. Are the arrangements to transfer the funds to the NIP satisfactory?	√
2.3. Have there been major problems in the past in receipt of funds by the NIP, particularly where the funds flow from the government/ministry of finance?	√
2.4. In the past, has the NIP had any problems in the management of disbursements from a member of the UN country team? Please describe.	√
2.5. How are the procedures to access counterpart funds?	√
2.6. What are the procedures for making disbursements from counterpart funds?	√
2.7. If part of the project will be implemented by co-implementing partners, does the NIP have the necessary reporting and monitoring mechanisms to track the use of funds?	√

Subject Area	National Implementing Partner
3. Staffing	
3.1. Is the organizational structure of the accounting function appropriate for the level of financial volume? Attach an organization chart.	√
3.2. Is the level and competency of staff appropriate for the level of financial volume? Identify the accounting staff, including job titles, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	√
3.3. Are the project finance and accounting function sufficient in number, are they sufficiently qualified (study background) and experienced?	√
3.4. Are accounting and finance staff familiar with UN procedures related to cash transfers?	√
3.5. What is the duration of the contract of finance and accounting staff?	√
3.6. Indicate key project positions not contracted yet, and the estimated date of appointment.	√
3.7. Are staff frequently changed? At what frequency?	√
3.8. Is there a training policy for the finance and accounting staff? Please describe.	√
4. Accounting Policies and Procedures	
4.1. Does the NIP have an accounting system that allows for the proper recording of financial transactions from UN Agencies, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?	√
4.2. Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	√
4.3. Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	√
4.4. Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	√
4.5. Are the general ledger and subsidiary ledgers reconciled and in balance?	√
4.6. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	√
Segregation of Duties	
4.7. Are the following functional responsibilities performed by different units or persons: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?	√
4.8. Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	√
4.9. Are bank reconciliations prepared by someone other than those who make or approve payments?	√
Budgeting System	
4.10. Do the budgets lay down physical and financial targets?	√
4.11. Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	√
4.12. Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	√

Subject Area	National Implementing Partner
4.13. Is there a need for approval in advance for overspending on approved budgets for a specific disbursement category?	√
4.14. Who is responsible for preparation and approval of budgets?	√
4.15. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	√
4.16. Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	√
Payments	
4.17. Do invoice processing procedures provide for:	√
- Copies of purchase orders and receiving reports to be obtained directly from issuing departments?	
- Comparison of invoice quantities, prices, and terms, with those indicated on the purchase order and with records of goods actually received?	
- Comparison of invoice quantities with those indicated on the receiving reports?	
- Checking the accuracy of calculations?	
4.18. Are all invoices stamped <i>PAID</i> , dated, reviewed and approved, and clearly marked for account code assignment?	√
4.19. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	√
Policies And Procedures	
4.20. Describe the basis of accounting (e.g., cash, accrual)?	√
4.21. Does the entity have an adequate policies and procedures manual to guide activities and ensure staff accountability?	√
4.22. Does NIP (and UN partner) approve every change to accounting and finance policies and procedures used in a project?	√
4.23. Are there written policies and procedures covering all routine financial management and related administrative activities? Are these accessible?	√
4.24. Are manuals distributed to appropriate personnel?	√
Cash and Bank	
4.25. Indicate names and positions of authorized signatories in the bank accounts.	√
4.26. Does the project maintain an adequate, up-to-date cash book, recording receipts and payments?	√
4.27. Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?	√
4.28. Are bank and cash reconciled on a monthly basis?	√
4.29. Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	√
4.30. Are receipts deposited on a timely basis?	√
Safeguard over Assets	
4.31. Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	√
4.32. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	√

Subject Area	National Implementing Partner
4.33. Are there periodic physical inventories of fixed assets and stocks?	√
4.34. Are assets sufficiently covered by insurance policies?	√
Other Offices	
4.35. Are there any other sub-project offices participating in implementation?	√
4.36. Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the sub-project offices? Please describe approval process.	√
4.37. Does information between central project office and sub-project offices flow in an accurate and timely fashion?	√
4.38. Are periodic reconciliations performed between central project office and sub-project offices?	√
Other	
4.39. Do the employees, beneficiaries, and other recipients know to whom to report if they suspect fraud, waste, or misuse of project resources or property?	√
5. Internal Control	
5.1. Is there a internal control/ inspection unit in the NIP?	√
5.2. What are the qualifications and experience of internal control/inspection staff?	√
5.3. Is the internal control/inspection unit sufficiently independent to make critical assessments? To whom does the internal control/inspection report?	√
5.4. Will the internal control/inspection unit include UN projects in its work program?	√
5.5. Are actions taken on the internal audit/inspection findings?	√
6. External Audit	
6.1. Is the project financial statement audited regularly by an independent auditor? Who is the auditor?	√
6.2. Are there any delays in audit of the project? When are the audit reports issued?	√
6.3. Is the audit of the project conducted according to the International Standards on Auditing?	√
6.4. Were there any major accountability issues brought out in the audit report of the past three years?	√
6.5. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	√
7. Reporting and Monitoring	
7.1. Are financial statements prepared for the NIP?	√
7.2. What is the format, frequency and process of reporting? Is this sufficient to be useful to management for decision making?	√
7.3. Does the reporting system need to be adapted to report on project related expenditure?	√
7.4. Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	√

Subject Area	National Implementing Partner
7.5. Does the NIP have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	√
7.6. Are financial management reports used by management?	√
7.7. Do the financial reports compare actual expenditures with budgeted and programmed allocations?	√
7.8. Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	√
8. Information Systems	
8.1. Is the accounting/financial management system computerized (other than by use of Excel)?	√
8.2. Can the system produce the necessary financial reports?	√
8.3. Are the staff adequately trained to maintain the system?	√
8.4. Does the management organization and processing system safeguard the confidentiality, integrity, and availability of the data?	√

Annex 4: Suggested Guidelines on Risk Grading to the Financial Management Capacity of Implementing Partners

	Areas of Assessment	Sub-areas of Assessment	High Score of 1 to 2.5	Significant Score from above 2.5 to 6.0	Moderate Score from above 6.0 to 8.5	Low Score from above 8.5 to 10
1	Implementing Partner (NIP)	General capacity of the NIP to manage UN resources. Particular focus on: a) NIP's legal status; b) Past experience of receipt of UN resources; c) Segregation of duties within the NIP for management of UN resources between an independent governing body ⁵ within the NIP and the implementing unit ⁶ itself.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) NIP is not legally established; b) Serious issues related to NIP's reputation to receive UN resources; c) No independent governing body, no supervision of implementing unit.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) Certain issues related to NIP's legal status; b) Certain issues related to NIP's reputation to receive UN resources; c) Complete lack of segregation of duties and/or governing body not independent from implementing unit.	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) No concerns about the NIP's legal status; b) No issues related to NIP's reputation to receive UN resources; c) Segregation of duties exists but some people have decision making position in both governing body and the implementing unit.	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) No concerns about the NIP's legal status; b) Good reputation for receipt and management of UN resources; c) High level of segregation of duties and highly independent and effective governing body within the NIP.
2	Funds Flow	NIP's capacity to arrange and supervise funds flow from the Donor to projects' end recipients of funds. Particular focus on: a) NIP's capacity to arrange and supervise funds flow; b) Issues related to funds transfer; management of Donor's funds transfer and management of counterpart funds transfer; c) Reporting and monitoring systems to track the use of funds at end-recipients.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) No supervision of funds flow; b) Very complicated and time-consuming funds transfer procedures; c) No track of use of funds.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) Poor supervision of funds flow; b) Time-consuming funds transfer procedures; c) Little track of use of funds (documentation largely missing).	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) Reasonable supervision of funds flow; b) Reasonable funds transfer procedures with little concerns; c) Track use of funds at end-recipients (documentation not always clear).	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) Strong supervision of funds flow; b) Effective funds transfer procedures; c) Effective track of use of funds at end-recipients.

⁵ There is no definition of governing body in the UNDP's Terms of Reference but it can be understood as a function(s) or department(s) within the Implementing Partner that assumes the overall responsibility for the financial management and/or operational performance of the ODA-funded projects but are not involved in implementation of ODA-funded projects. Governing body is normally, but not limited to the central finance and accounting department of the Implementing Partner.

⁶ There is no definition of implementing unit in the UNDP's Terms of Reference but it can be understood as a unit within the Implementing Partner that implements ODA-funded projects. Normally the implementing unit is the direct recipient agency for the ODA-funded projects in the area of its competence. With regard to its organisation, an implementing unit can be a separate project management unit or part of existing department within the Implementing Partner.

	Areas of Assessment	Sub-areas of Assessment	High Score of 1 to 2.5	Significant Score from above 2.5 to 6.0	Moderate Score from above 6.0 to 8.5	Low Score from above 8.5 to 10
3	Staffing	Overall competence of NIP's financial team with regard to management of UN resources. Particular focus on: a) Organizational structure of financial function and job descriptions. b) Segregation of duties; c) Competence and motivation of staff appropriate for the complexity and financial work volume; d) Knowledge and skills, obtained through experience or specific training, related to UN operation procedures.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) Ineffective organizational structure of financial function and confused roles and responsibilities; b) Very low segregation of duties resulting in the possibility of fraud or misuse of assets. c) Incompetent and low-motivated staff. d) No training.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) Ineffective organizational structure of finance function and no job descriptions; b) Low segregation of duties; c) Significant concerns about the competence and motivation of staff; d) Inadequate training.	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) Effective organizational structure of financial function; b) Segregation of duties can be improved; c) Some concerns about the competence and motivation of staff; d) Limited training and timely update of knowledge and regulations.	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) Very effective organizational structure of financial function; b) Adequate segregation of duties; c) Highly competent and motivated staff; d) Adequate training and timely update of knowledge and regulations.
4	Accounting Policies and Procedures	The quality of NIP's accounting policies, procedures and controls. Particular focus on: a) General capability of the accounting system in allocation of expenditures by various categories; use of chart of accounts and accounting books; b) Detailed guidelines on accounting operations; c) Segregation of duties: ordering, receiving, recording, approval and payment of goods/services; d) Budgeting and budget-actual analysis; e) Payment procedures; f) Accounting principles; g) Cash, bank and asset management; h) Procedures related to other offices.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) No capability for allocation of expenditures; b) No accounting guidelines; c) Very low segregation of duties which results in frauds or misuse of assets; d) Very poor budget and no budget-actual analysis; e) Creative or manipulated accounting principles; f) High risks in cash, bank and asset management; g) No controls over other offices.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) Significant issues with allocation of expenditures and accounting books; b) No accounting guidelines; c) Low segregation of duties; d) No budget-actual analysis; e) Low controls over cash, bank and assets; f) Low controls over other offices.	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) Some issues with allocation of expenditures; b) Accounting guidelines exist but lack clarity; c) Adequate segregation of duties; d) Quality budget-actual analysis; e) Strong controls over cash, bank and assets; f) Reasonable controls over other offices.	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) Effective allocation of expenditures; b) Adequate accounting guidelines; c) Adequate segregation of duties; d) High quality budget-actual analysis and high support to decision making; e) Strong controls over cash, bank and assets; f) Strong controls over other offices.

	Areas of Assessment	Sub-areas of Assessment	High Score of 1 to 2.5	Significant Score from above 2.5 to 6.0	Moderate Score from above 6.0 to 8.5	Low Score from above 8.5 to 10
5	Internal Control	The quality of NIP's internal audit function. Particular focus on: a) Its independence and effectiveness; b) Quality of internal audit reports.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) No internal audit function and serious issues identified during the review which results from lack of internal audit function.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) No internal audit function.	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) Internal audit function in place, but issues with independence and the clarity of its role; b) Some weaknesses in quality of internal audit reports.	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) Strong internal audit function in place; b) High quality internal audit reports.
6	External Audit	The quality of NIP's external audit reports. Particular focus on: a) Audit opinion on project financial reports; b) Quality of auditors and terms of reference; c) Issues identified by external auditors and improvements by the NIP.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) Disclaimer audit opinion; b) Unreliable auditors; c) High volume of major issues identified by external auditors and almost no improvements by the NIP.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) Qualified audit opinion; b) Concerns about the independence and competence of auditors; c) Considerable major issues identified by external auditors and little improvements by the NIP.	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) Unqualified audit opinion or qualified with minor points only; b) Reasonably qualified auditors, but terms of reference could be improved; c) Few major issues, but considerable improvements already made by the NIP.	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) Unqualified audit opinion; b) High quality auditors working with clear terms of reference; c) No major issues and significant and timely improvements by the NIP.
7	Reporting and Monitoring	The quality of NIP's reporting and monitoring system. Particular focus on: a) Quality of internal and external reporting lines; b) Effectiveness of supervision by the governing body within the NIP; c) Quality, frequency and timeliness of project financial reports; d) Budget-actual and objective-actual analyses.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) Almost no internal and external reporting lines; b) Almost no supervision by the governing body; c) No project financial reports; d) No awareness of budget-actual and objective-actual analyses.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) Very weak internal and external reporting lines; b) Insufficient supervision by the governing body; c) No project financial reports or no consolidation of sub-project reports; d) Poor budget-actual and objective-actual analyses.	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) Effective internal and external reporting lines; b) Effective supervision by the governing body; c) Some issues with quality and/or timeliness of project financial reports; d) Budget-actual and objective-actual analyses exist. But some shortcomings noted.	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) Very effective internal and external reporting lines; b) Very effective supervision by the governing body which results in significant improvements by the implementing units; c) Quality and timely project financial reports; d) Quality budget-actual and objective-actual analyses and high support to decision making.

	Areas of Assessment	Sub-areas of Assessment	High Score of 1 to 2.5	Significant Score from above 2.5 to 6.0	Moderate Score from above 6.0 to 8.5	Low Score from above 8.5 to 10
8	Information Systems	The quality of the NIP's information system. Particular focus on: a) Level of computerization and its support in producing project financial reports; b) System's security.	There are issues of high uncertainty with regard to the sub-areas of assessment. Examples include: a) Very low support from the computerized system; high manual work and time-consumption on report preparation; b) Very low system's security.	There are issues of significant uncertainty with regard to the sub-areas of assessment. Examples include: a) Low support from the computerized system; significant manual work and time consumption on report preparation; b) Low system's security.	There are issues of moderate uncertainty with regard to the sub-areas of assessment. Examples include: a) Reasonable support from the computerized system; b) Minor issues with system's security.	There are almost no concerns with regard to the sub-areas of assessment. Examples include: a) High support from the computerized system; b) Adequate system's security.
	Overall Risk Assessment	Consolidation of eight criteria and total of scores. Maximum total score is 80.	Total score from 8 to 20.	Total score from above 20 to 48.	Total score from above 48 to 68.	Total score from above 68 to 80.