

**S****pot Check Guidance**

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# **SUMMARY**

Background

The UNDG HACT Framework (2014) defines spots checks as:

*Periodic on-site reviews (…) performed to assess the accuracy of the financial records for cash transfers to the IP 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.” (para 9.17).*

Purpose

The purpose of this guidance is to:

1. Assist UNFPA personnel to understand the spot check process;
2. Provide a standard approach to work steps undertaken during a spot check; and
3. Provide a standard approach to documentation and follow up of findings.

Use of this Guidance

The use of this guidance and attached templates is mandatory for all required spot checks. However, if UNFPA offices need to customize the testing procedures and the attached templates based on the specific programme details and operating environment, they should discuss with the Quality Management Unit (qmu.group@unfpa.org). Customized testing procedures need to follow the main activities in the spot check process as described in this Guidance.

This guidance is part of UNFPA’s IP Assurance Guidance which has details on assurance planning, including spot checks, the reporting of spot checks and follow up to spot check findings in the [Implementing Partner Assurance System (IPAS)](https://applications.myunfpa.org/IPAS/manageBU.unfpa?method=showBUs).

Scope of a spot check for UNFPA

A spot check reviews at least one (1) FACE form representing at least 20% of the total annual (planned) expenditure.

# Spot Check Process

The spot check process consists of four activities. The table below summarizes the main timeframe and responsibilities.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Activity | When? | How long?[[1]](#footnote-1) | Where? | By who? |
| I. | Annual Planning | At the beginning of the year | Varies | UNFPA office | HACT focal point / Programme manager |
| II. | Preparation | At least three days before field work | Half day | UNFPA office | Programme manager / Spot checker(s) |
| III. | Field Work | Day of fieldwork | 1-3 days[[2]](#footnote-2)  | IP’s office | Spot checker (s) |
| IV. | Reporting | Days immediately after fieldwork | 1 day | UNFPA office | Spot checker (s) |
|  V. | Follow-up | Varies in relation to issues identified | Half day to a day | UNFPA / IP office | Programme manager / Spot checker |

Structure of this Guidance

The Spot Check Guidance consists of four sections, each one providing a summary of the main activities and detailed steps to complete each activity.

Templates are included as annexes:

1. Annex A: Spot Check Checklist (for internal use, no submission in IPAS required)
2. Annex B: Spot Check Report with findings & recommendations
3. Annex C: Testing of Expenditure Worksheet (submission in IPAS is optional)

The spot check process begins with the preparation of the annual assurance plan and assigning personnel to conduct spot checks.

# **ACTIVITY I: ANNUAL PLANNING**

UNFPA offices establish the timing, frequency and staff assigned to conduct spot checks at the beginning of the year in the assurance plan in IPAS. Offices subsequently review the assurance plan on a regular basis and make changes in IPAS as required. This entails the following three steps:

1. Determine the frequency of spot checks

2. Determine the timing of the spot checks

3. Assign staff to perform the spot checks

I.1 Determine the frequency of spot checks

The frequency of spot checks is determined based on the risk rating of the IP as established by the micro assessment and the planned cash transfer amount for the year.

As a general principle, the minimum spot check requirement for all IPs receiving UNFPA funds above an annually determined and differentiated amount is **one** spot-check per year. For the year in which the IP is audited, a spot check is strongly recommended but only mandatory for higher risk and high materiality IPs as per the annual assurance planning guidance.

The UNFPA offices may increase the frequency based on the operating context and knowledge of the IP. However, UNFPA offices should consider a balanced approach between risk, cost and value add of additional spot checks, including whether there is internal capacity to undertake additional spot checks – be realistic.

I. Annual Planning

1. Determine the frequency of spot checks

2. Determine the timing of spot checks

3. Assign staff

II. Preparation

1. Review relevant information

2. Reconcile the FACE form(s) to the IP's system report

3. Select expenditures

III. Fieldwork

1. Interview on changes in internal controls

2. Review bank reconciliations

3. Test a sample of expenditures

IV. Documentation and follow-up

1. Discuss findings and corrective actions with IP's management

2. Determine follow-up actions and escalation

3. Adjust the assurance plan

Risk factors to consider for additional assurance include:

* a high risk context or operating environment,
* complex or high risk activities,
* substantial increase in funding managed by the partner,
* experience and history with other UN agencies or development partners (check the [UN Partner Portal](https://www.unpartnerportal.org/landing/) for observations related to NGOs),
* high priority findings in the last spot check that could not be resolved in follow up
* stricter donor requirements

Remote spot checking

By definition, spot checks imply the conduct of an on-site visit. If it is impossible or impractical to conduct an on-site review, and only in that case, the business unit can choose to conduct remote spot checks.

Typical reasons that justify remote spot checks include the following cases:

1. The IP based in a non-programme country where UNFPA does not have an office;

the IP’s premises are not accessible for security reasons or restrictions on movement .

If the remote spot check option is used, this guidance remains valid in all its aspects with the only difference that meetings and interviews will be conducted remotely through telephone or video-conference and that supporting documentation will be shared electronically.

Refer to the addendum below for additional guidance on how to conduct a remote spot check.

I.2 Determine the timing of spot checks

Prioritize

Once the frequency of spot checks has been determined, the UNFPA office has to determine when the spot checks will take place.

Priority should be given to spot checks planned for IPs for which:

* Larger amount of cash transfer is planned;[[3]](#footnote-3)
* The UNFPA office has no prior experience;
* No prior financial assurance activities were conducted (prior spot checks or audits);
* Previous assurance activities (programmatic visits, spot checks or audits) identified significant deficiencies in the internal controls or programme implementation;
* Other considerations resulted in increased risk for UNFPA to work with a particular IP (see risk factors to consider for additional assurance mentioned in section I.1 above)

Monitor on a regular basis

* Performing spot checks earlier in the fiscal year is highly encouraged;
* Monitor the progress of actual performed versus planned spot checks on a quarterly basis;
* Adjust the assurance plan for spot checks planned but not completed by rescheduling them for the following quarters.

Failure to do so can result in an unrealistic number of spot checks that have to be completed in the last quarter! It also represents failure to proactively identify an IP’s poor financial management and reporting practices so to jointly implement timely corrective actions.

Schedule the spot check

* To conduct a spot check, the IP must have submitted a FACE form reporting actual programme expenditures. Therefore, in principle, the earliest a spot check can be conducted is during the second quarter of programme implementation.
* The actual programme expenditures reported in the last quarter of the year can only be spot checked in the following year.
* Spot checks performed in quarter one of the following year should be performed as early as possible (and, consistently with audits, before financial closure) for financial reporting purposes.
* The actual date that the spot check will be performed should be agreed in advance with the IP taking into consideration the availability of qualified UNFPA staff and the availability of the IP staff and management.
* As a general rule, give at least one week lead time for the IP to prepare all required documentation.

I.3 Assign staff to perform the spot check

Each UNFPA office determines whether qualified internal staff or external service providers (or a combination of both) undertake spot checks.

If a decision is made that internal staff will be conducting spot checks, the UNFPA office must ensure that the staff performing the spot checks possess a minimum of 5 years’ experience in financial management, knowledge of UNFPA-supported programmes, the programming context, the interagency HACT Framework and the terms of reference of spot checks.

Required experience in financial management may be replaced by documented on the job training, regular coaching and supervision by qualified UNFPA staff or quality assurance by an external service provider. The Head of Office determines whether staff is qualified to undertaken spot checks. UNFPA offices may also contact other UNFPA offices for assistance in carrying out spot checks.

If the spot check is performed by external service providers, the business unit can use this opportunity to strengthen internal capacity by agreeing with the external provider that UNFPA staff participate in the spot check.

The objective of this shadowing exercise is to observe and learn how this guidance is put in practice. UNFPA staff should place particular attention to the areas that require professional judgement, such as:

1. the internal control interview;
2. the sampling of transactions;
3. the assessment of the adequacy of the supporting evidence provided by the IP;
4. the assessment of the findings. In particular:
	1. assign rating (low or high priority)
	2. determine if the finding leads to expenditures to be deemed unsupported and their quantification

In order to be effective, UNFPA staff member should ask questions when he/she is not clear on the purpose of the verification procedures or the rationale behind decisions based on professional judgement. Staff member should also take notes and document the exercise.

***Example***

A relatively newly hired programme assistant, Maureen, does not have five years experience in financial management. During the past year, Maureen has received excellent performance reviews and has demonstrated an understanding of HACT, the IP Procedure requirements, IP budgeting and IP reporting processes. She has assisted the UNFPA programme manager in reviewing the FACE forms and pointed out discrepancies. The Deputy Representative nominates Maureen for the spot checker roster.

The UNFPA office implements the following training plan:

* The HACT focal point provides Maureen with a training on the spot check guidance;
* Maureen is paired with a qualified experienced staff to conduct two spot checks:
	+ During the first spot check she is observing and assisting the experienced staff;
	+ During the second spot check she is leading the spot check and the experienced staff is observing and providing guidance;
* Maureen conducts a third spot check on her own and a qualified experienced staff reviews in detail her report and working papers by.

If the quality of the working papers and findings are satisfactory, Maureen will be placed on the spot checker roster. If not, further coaching and supervision is provided to Maureen and the UNFPA office reconsiders whether she will be able to conduct spot checks.

UNFPA offices should periodically review a sample of spot check reports in order to ensure quality of the documentation and findings. The review should be performed by someone who was not involved in the original spot check. This exercise may also be used as a capacity building opportunity for internal staff, by identifying knowledge gaps and training opportunities.

This review must be documented and endorsed by the Head of Office.

***Tip***

Offices may find that they have staff that do not meet the experience requirements but have potential to undertake spot checks. In such situations, the office can put in place an approach of more extensive on-the-job training, supervision (through regular review of working papers and reports) and coaching by an experienced spot checker meeting the minimum experience requirements.

***Attention***

Staff that meet or exceed the 5 years’ experience in finance and accounting still need to have knowledge of the UNFPA programme and programming context. For new staff or existing UNFPA financial staff with limited exposure to programming, this knowledge is often best gained through being accompanied on initial spot checks with programme staff.

***Attention***

In order to prevent conflict of interest and self-review, UNFPA staff are not permitted to conduct spot checks alone on those programmes for which they have been involved in reviewing the FACE form(s) submitted by the IP. For example, if a Programme Assistant working on the SRH programme section is qualified to conduct spot checks, s/he may not conduct spot checks on those programmes but on other programmes such as GBV, Youth etc.

However, it may be beneficial that programme staff responsible for the IP in question is part of the spot check team for the following reasons:

* Relationship with the IP
* Knowledge of the programme
* Effective cross-checking of financial information with programme implementation

In such situations segregation of duties risk is mitigated if

* Another team-member is involved in the spot check and reviews the work performed by the programme staff.
* Another team-member reviews in detail the work performed by the programme staff after completion of the spot check.

# **ACTIVITY II: SPOT CHECK PREPARATION**

 A spot check reviews at least one (1) FACE form representing at least 20% of the total annual (planned) expenditure.

In order to conduct an effective spot check, the staff or team conducting the spot check (referred to henceforth as “spot checker”) familiarizes themselves with the programme and related FACE form(s) and make a selection of transactions to test.

It is advised that preparation take place a week before the spot check so that the UNFPA office can provide the sample selection to the IP in order to allow the IP to provide all required support documentation at the time of fieldwork. Spot-check preparation is completed in the following three steps:

1. Review relevant information
2. Reconcile the FACE form(s) to the IP’s system report
3. Make a selection of expenditures to test

II.1: Review relevant information

In preparation for the spot check, the spot checker responsible to conduct the spot check should review the following documents:

|  |  |
| --- | --- |
| **Document** | **Objective** |
| Programme document / work plan | To become familiar with the programme background and approved activities |
| Micro assessment report | To become familiar with IP processes and understand the high priority observations and recommendations. During the interview, the spot checker should inquire whether the IP has implemented the high priority recommendations flagged for follow up, assess them and obtain evidence. |
| Latest programmatic visits and progress reports | To understand what activities took place as well as challenges in implementation |
| The FACE form(s) requesting funding with the accompanying detailed budget sheets (if any) and the FACE form(s) reporting the actual programme expenditures | To understand the activities and inputs which were authorized |
| Previous spot check or audit reports | To identify the high priority observations and recommendations. During the spot check, the spot checker should inquire whether the IP has implemented the recommendation and verify it through the testing procedure. |

The spot checker should discuss with the UNFPA programme manager any concerns regarding the IP’s overall performance, programme and financial management, and internal controls.

II.2: Reconcile the face form(s) to the IP’s system report

After reviewing the relevant information, the UNFPA programme manager contacts the IP to inform them of the upcoming spot check and agree on the date of the spot check. He or she requests the detailed transactions that support the actual programme expenditure reported on the FACE form(s).

***Tip***

Spot checks are performed on FACE form(s) that report the use of cash transfers. (advance liquidation; requested reimbursement of expenditures; or requested direct payment to the vendor). While not required (nor typical), an office may decide to conduct the spot check prior to liquidation, reimbursement or direct payment for a specific IP. Offices may decide to take this exceptional approach in cases where: the IP is new and a micro assessment has not yet been conducted; or where previous assurance activities have identified significant internal control deficiencies or failure to obtain assurance on the programme expenditures reported.

Once the IP has provided the detailed transaction list, it is important to reconcile the report to the FACE form(s) to be tested by:

1. Ensuring that the dates on the system report correspond to the reporting period on the FACE form(s). For example, if the FACE form is reporting actual expenditures for Q1, the dates on the system report should be 1 January 20XX to 31 March 20XX. If there are transactions conducted outside of the reporting period, they are deemed ineligible unless the IP can prove that they have not been and will not be reported on another FACE form.
2. Ensuring that the total amount of transactions on the report is equal to the total amount on the FACE form. If the amount on the report is smaller, the difference is deemed ineligible and a refund is required. If the amount is higher, the IP has to explain why the expenditures were not reported on the FACE form.
3. The subtotal by activity in the report must match the total amount for each activity reported on the FACE form. If the amount on the report is smaller, the difference is deemed ineligible and a refund is required. If the amount is higher, the IP has to explain why the expenditures were not reported on the FACE form.

***Attention***

It is possible that the total expenditures recorded in the system report exceed the amounts reported on the FACE form if:

The IP is contributing financial resources to the programme and / or

The IP is receiving funding from multiple donors for the same programme **AND**

The IP’s accounting system is not set up for fund accounting.

In this situation, the spot checker should pay particular attention to verifying that original invoices are stamped as “PAID from UNFPA” (see relevant step in the Annex C – Test of expenditures) in order to ensure that the expenditure was properly reported on the FACE form.

After reconciliation with the IP system report, the FACE form(s) should also be reconciled with expenditures contained in the CDR for monitoring report.

II.3: Make a selection of expenditures to test

Not all amounts reported by an IP are tested during a spot check. The exact coverage (the amount of the items selected for testing compared to the total amount reported on the FACE form(s) cannot be prescribed due to the differences in programmes and the nature of their expenditures. The goal should be to obtain coverage of at least 15% of the annual expenditure reported on the FACE forms. The sample of transactions from the FACE form(s) may range between 30-80%, but offices may exceed this as per their own decisions. For example if a FACE form selected for spot checking represents 20% of the annual expenditure, sampling will be done for at least 75% of the FACE amounts to have the minimum 15% of annual expenditure covered.

The selection of expenditures should be done using a risk-based approach using the following rules:

* Select at least one transaction from each expense category that is cumulatively equal to or exceeds 10% of the actual expenditures reported on the FACE form.
* Focus on larger valued items, but also include some smaller valued items.
* Select unusual or high risk items, including, but not limited to:
	+ Description of the expenditure is not appropriate for the expense category in which it is included;
	+ Description of the expenditure is not appropriate for the activity or the work plan;
	+ Description of the expenditure is general or vague or there is no description at all;
	+ Date on which the expenditure was incurred or reported is not appropriate for the reporting period on the FACE form;
	+ The amount of the expenditure is unusual for the type of expenditure (for example round number or large number);
	+ The same expenditure and amount recorded multiple times.

Using a risk-based approach allows the spot checker to conduct the spot check as efficiently and effectively as possible, benefiting both the UNFPA team and the IP. It focuses attention on identifying and testing expenditures that have the potential to materially affect the report of actual programme expenditures.

***Attention***

It is important to document:

* The source for the sample selection (for example, download from the IP’s accounting system)
* Expense categories and transactions selected
* Coverage obtained

***Example***

For the programme implementation period under review (Jan.-Dec.), an IP submitted FACE form(s) reporting on funds utilization as follow:

|  |  |  |
| --- | --- | --- |
| Activity | Authorized Amount  | Actual Project Expenditures |
| GBV prevention in refugee camps | $40,000 | $37,720 |

The IP provided the following support for the actual project expenditures reported on the FACE form(s), in the form of a download from their accounting system:

|  |  |
| --- | --- |
| Category of Expenditure | Actual expenditures |
| Personnel (salaries and wages) | 6,300 |
| Travel | 150 |
| Consultation | 4,100 |
| Hygiene kits | 14,700 |
| Materials | 11,300 |
| Consumables | 420 |
| Training | 750 |
| *Total activity costs* | *$37,720* |

At least one transaction is selected from each expense category that equals or exceeds 10% ($3,772) of the programme expenditures. Therefore, expenditures selected for testing are:

* Personnel (salaries and wages)
* Consultation
* Hygiene Kits
* Materials

***Example (continued):***

The category, Materials, included the following detailed transactions:

|  |  |  |  |
| --- | --- | --- | --- |
| **Record #** | **Date** | **Description** | **Amount** |
| 7305 | 26-Dec | Tarps | 2,678 |
| 7309 | 05-Feb. | Fixtures | 175 |
| 7310 | 10-Mar. | Toilet stalls | 3,335 |
| 7331 | 12-May | Water tank | 2,000 |
| 7333 | 17-Jun. | Lighting | 415 |
| 7336 | 05-Sep. |  | 735 |
| 7337 | 11-Oct. | Toilettes | 1,215 |
| 7340 | 15-Dec. | Computer | 747 |
| *Total:* | *$11,300* |

Using a risk- based approach, the following transactions are selected:

* 7305 – The expenditure is recorded before the programme has started – in December
* 7310 – This is the largest expenditure
* 7331 – The amount of the expenditure is a round number, which is not typical of a procurement transaction
* 7336 – There is no description of this expenditure
* 7340 – Computer is not related to the expenditure category or to the programme activity

# **ACTIVITY III: FIELD WORK**

Testing procedures are performed at the IP’s location where the books and records for the programme are maintained. Fieldwork is generally conducted within one day and involves three steps:

1. Interview on changes in internal controls
2. Review bank reconciliations
3. Test a sample of expenditures

III.1 Interview on changes in internal controls

In order to determine if there have been any significant changes to the internal controls applicable for the IP, the spot checker should:

* Conduct an interview with the finance and programme management of the IP to understand if they have implemented any high priority recommendations from the micro assessment and previous assurance activities if any. Obtain evidence during the expenditure testing.
* Inquire with management (and obtain evidence) if there have been any changes in the organization, including:
	+ Changes in the organization structure and key programme or finance management positions;
	+ Changes to the internal policies or procedures;
	+ Changes to the financial management processes;
	+ Changes in the accounting or reporting systems.
* Determine if any of the changes increase the risk of successful and timely programme implementation or the accuracy of the financial reporting of the IP. Compare results with original micro-assessment records.
* Document the changes in the Annex B: Spot Check Report.

***Example***

A previous spot check identified that while the IP was using fund accounting, invoices were not stamped or marked as to which source of funding was used to pay the invoice. (For example, “Paid by UNFPA, Project ID, Fund Code).” The spot check report recommended for the IP to start this practice.

Prior to undertaking testing of expenditures during the current spot check, the UNFPA spot check team discussed with management whether the recommendation was implemented. Management confirmed that it had and explained that they are writing the source of funding in ink on each invoice.

|  | **Procedure** | **Findings** |
| --- | --- | --- |
| 1 | Inquire of IP management whether there have been any changes to internal controls since the prior micro assessment from the current programme cycle.Document any changes identified. | Management stated that previous recommendation was implemented and all sources of funding have to be written in ink on the invoice specifying funding agency and specific Project ID.The testing of expenditures provided evidence that this control was implemented and noted no exceptions. |

III.2 Review bank reconciliations

While there is no specific requirement, some IP will deposit funds received from UNFPA into a separate bank account. In this situation, confirm that a bank reconciliation was completed and that the balance has been reconciled to the accounting records / system report obtained for the spot check period. Observe and inquire on any unusual reconciling items.

III.3 Test a sample of expenditures

Prior to testing, request an explanation from the IP management how they determine what expenditures are charged to the UNFPA project. This will allow you to see if the IPs internal procedures were followed.

For each transaction selected, perform and document testing procedures using Annex C: Testing of Expenditure Worksheet.

Specific Procedures Performed for Expenditures

Due to the nature of specific type of expenditures, additional procedures may be required in order to review them for eligibility. The list below includes some common types of expenditures reported.

Procurement

1. Competitive offers were obtained as per the implementing IP’s, the national policies or UNFPA’s procedures in accordance with IP agreement.
2. Sufficient lead-time was given to advertising the bid.
3. The offers were dated after the invitation to tender dates and before the date of award of the contract.
4. The offers were evaluated based on a systematic approach (i.e. points system) and reviewed and approved by the appropriate level as per the IP’s policy.

The table below notes some common risks and red flags to watch for when reviewing procurement.

|  |  |
| --- | --- |
| **Risks** | **Red flags to watch for** |
| * Bidding documents and terms of reference may be skewed to match the unique qualities of one particular supplier
* The quantity of goods or services needed may be exaggerated to favor a supplier with a particular capacity.
* Bribery, kickbacks, collusion or coercion can distort the process of supplier selection, which should be made competitively and transparently according to price and quality. Such corruption can lead to above-market prices or substandard quality of goods and services.
* A supplier may provide low quality, defective or fake supplies or poor services, but bill for specification-standard materials or work
* Staff may be bribed by suppliers ‘not to notice’ the sub-specification execution of a contract, to accept fake goods as genuine or to sign off invoices for inferior work
* Suppliers may introduce substantial changes to the quality specifications or prices in their contract via renegotiation or ‘change orders’, often in small increments that don’t require management sign-off
* Fake bids/vendors are used to justify competitive bidding
 | * Specifications too narrow or precise, so that only one supplier can qualify
* Subjective criteria for evaluating compliance with specifications
* A contract split into multiple tenders just below the threshold for competitive bidding
* Limited bid advertising
* Multiple or repeat contracts going to the same supplier or group of suppliers
* Bid deadlines that are unduly short; frequent justification of ‘urgency’ that may favor incumbent contractors
* Unjustified requests for ‘sole-sourcing’
* Bids that are not sealed or are not opened publicly and simultaneously
* Repeated awards to the same bidder or group of bidders
* Contracts awarded to known friends or family of agency staff, or to companies where staff have a financial interest
* Fees to intermediaries, agents or brokers for assistance in bid preparation or contract negotiation, which may be used for facilitation payments
* Drastic changes in pricing from previous contracts
* Unusual bid patterns that could indicate collusion among bidders
* Repeat contract awards to the same supplier(s) or the lowest priced bidder being bypassed for a ‘preferred’ but costlier supplier
* Unjustified change orders to a contract after award to increase amounts or modify specifications
* Prices inflated substantially above market levels
* The amount of goods or services delivered being less than requested
* Bid documents do not appear genuine, are not printed on the official vendor paper and not stamped (plain Microsoft word document)
* Invoices do not appear genuine and are not in line with local legislation and practice
* Pricing is not in line with local market rates
 |

Professional skepticism should be used when above red flags are identified and the spot checker may decide to perform additional research on the bidders. Example of these procedures are the following: (i) perform internet search or phone calls to verify the identity of the vendor; (ii) call the losers of the bid to ascertain that they actually provided the quote documented in the bid and receive any comment they may have on the way the bidding process was conducted.

Apportioned Costs

1. Verify that there is a systematic cost accounting approach to apportionment of costs shared by various funding agencies with the IPs (ex. rent, utilities). The approach should be documented in the IP’s policy manual and accounting system.
2. Verify that the approach is consistently used to calculate the apportioned amounts.
3. Ensure that the total cost allocated does not exceed 100%.

Payroll

1. Verify that the amount reported agrees to the payroll register
2. Verify that the amount reported agrees to the employee contract
3. Verify that payments were received by the appropriate individual
4. Number and ToR of employees and payroll rates are consistent with work programme activity and related budget.
5. If the employee is not fully working on the UNFPA funded programme, verify that the amount is calculated based on a systematic approach.

Internal controls for payroll should ensure that payroll disbursements are made only upon proper authorization to bona fide employees, that payroll disbursements are properly recorded and that related legal requirements (such as payroll tax deposits) are complied with.

|  |  |
| --- | --- |
| **Risks** | **Red flags to watch for** |
| * Ghost workers’ (fictitious or former employees whose wages are received by someone else)
* Salary inflation with surpluses diverted
* A staff member pocketing part of a team’s cash wages
* Loans or advances that aren’t repaid or false claims for benefits or bonuses
* Much abuse takes place around benefits, e.g. allowances – per diems, transport, education
 | * Sudden unexplained increases in payroll numbers or cost
* Salaries continuing to be paid to employees who have left the IP
* Perfect attendance records for all/most employees
* Similar signatures on pay receipts
* Unusual items such as payments for vacations, removal costs or other benefits
* Unexplained increases in salaries of staff, especially payroll staff
 |

Travel/DSA

1. Verify that travel related costs only include payment for the direct cost of expenses incurred by the IP and that these costs are aligned with government rates if required by the host government in country.

2. Verify that travel related costs are based on the IPs existing policies. Ensure that any new travel policy created especially for UNICEF supported travel doesn’t differ from the partner’s regular travel policy.

3. Ensure that DSA rates applied are the lesser of the applicable rates established by the International Civil Service Commission or the rates established by the IP’s internal policies.

4. Ensure that DSA is not claimed for events that are fully hosted.

5. Reconcile DSA payments with participant lists, payment sheets and attendance registers.

Other considerations

***IP support costs***

If the Work Plan (NGO IPs only) provides for IP support costs, there is no need to obtain invoices to support the amount claimed. As this amount is based on actual eligible expenditures, any adjustments related to eligibility of expenditures claimed may result in the need to re-calculate the IP support cost to determine the amount that the IP owes UNFPA.

***Segregation of duties***

Segregation of duties is one of the fundamental internal controls for any organization. It is one of the key controls to reduce the risk of corruption. That is, one person should not handle a financial transaction from beginning to end.

When testing expenditures, look to determine whether basic segregation of duties have been respected - remember the “four-eyes principle” - at least two people must witness or approve any financial transaction.

|  |
| --- |
| Activities within a financial transaction that should be segregated |
| **Cash disbursement and petty cash** | Authorizing payments | Handling cash/Issuing payments | Recording transactions |
| **Procurement** | Ordering goods | Receiving goods |   |
| **Payroll** | Maintaining payroll records | Authorizing salary payments |   |

***Use of Goods/Assets/Services***

Before the visit to the IP location, the spot checker should verify with the Programme Manager in UNFPA for the particular IP the detailed purposes for which any goods, assets or services were purchased. On location, the spot checker will verify through interviews with IP staff, observation and review of documentary evidence, that they are actually used as intended.

***Unsupported expenditures***

The spot checker should determine which findings will result in the ineligibility of the related expenditures. The criteria to make such determination are the same criteria that would have determined the rejection of the expenditure in the original FACE form if the finding had been known at the time the business unit reviewed and approved the FACE form.

# **ACTIVITY IV: DOCUMENTATION AND FOLLOW UP**

Once the test of expenditures is completed, the spot checker discusses any observations, outstanding items and issues with the IP, UNFPA programme manager and the HACT focal point following these three steps:

1. Discuss the findings with IP’s management

2. Determine follow up actions and escalation

3. Adjust the Assurance Plan

IV.1 Discuss findings and document corrective actions proposed by the IP’s management

Once the test of expenditures is complete, the results of the spot check are shared with the implementing partner. The spot checker discusses the observations, outstanding items and issues with the IP. The IP management can:

* Agree with the finding and provide corrective actions to be taken; or
* Agree to provide additional information to support the control or expenditure tested within a reasonable time, for example one week; or
* Disagree with the findings and provides detailed explanation on the reasons why they disagree.

The spot checker documents all detailed observations, IP management’s response and any recommendations, agreed upon actions and their due dates in Annex B: Spot Check Report.

The Spot Check Report is shared with the IP.

IV.2 Determine follow up actions and escalation

After completing the spot check, the spot checker meets with the UNFPA programme officer responsible for the programme implementation and with the HACT focal point in order to discuss the findings, IP management responses and recommendations.

The group reviews each observation in order to determine the follow up actions and whether further escalation is required and assign “High” or “Low” priority for each finding and recommendation.

An observation is low priority if it does not indicate systematic break down of controls and weak financial management practices. Examples include:

* Some supporting documents were photocopies and not originals;
* Support documentation could not be found for low value transactions (lost by IP);
* A purchase order was not approved, but the invoice and payment checks were;
* There was no competitive bidding progress for a contract, however sole sourcing is justified, documented and approved by senior management.

An observation is high priority if it indicates a systematic break down of controls and violation of the IP’s financial policies. Examples include:

* Lack of invoices or proof of payments for several or high value transactions;
* Documentation is not approved as per the IP’s policies;
* Differences between the amounts recorded in the system report and the support documentation and payment amounts;
* No calculation;
* The invoice and payment amounts are significantly higher than the prevailing market rates.

A mandatory high priority rating will reflect in IPAS if the percentage of unsupported expenses to total sampled expenses is 2% or more.

Low priority observations do not require follow up. The recommendations are documented in the spot check report and provided to the IP.

High priority observations require a follow up by the UNFPA programme manager. Depending on the finding the follow up can be:

* Request a refund of the ineligible expenditures;
* Request the IP to review and correct the reporting;
* Conduct a follow-up spot check in the next quarters to ensure recommendations have been implemented;
* Request the IP to implement the activities and incur the expenditure for the incorrectly reported amounts;
* Commission an audit for the whole programme period or commission a special audit on specific area of concern;
* Consider changes to the programme.

If there is a suspect misuse of funds, the spot checker discusses the spot check report with the Head of Office, who notifies the Office for Audit and Investigation Services (OAIS) with a copy to the Regional Director for advice and next steps.

The process of escalation of spot check findings is illustrated in figure 2 on the next page.

***Example***

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that while the expenditure reported on the FACE form and in the system is reasonable and comparable to the approved budget, there is no supporting documentation to back up the amount charged.

The spot checker discusses the observation with the IP management, who states that they could not obtain receipts for fuel purchases and therefore calculated the expenditure on a spreadsheet based on confirmation from the drivers.

The spot checker determines that the explanation is reasonable, due to the cash based economy and operational environment in the country, where receipts for small purchases are not typically given.

The spot checker proposed to the IP management to implement a vehicle usage log and provides as an example the template used by UNFPA field office. By doing this, the UNFPA office improves IP’s capacity in financial management.

The IP agrees to implement the vehicle usage log and use it to calculate the fuel cost and vehicle charges.

The spot checker documents the recommendation and corrective actions in the spot check report and discusses with the HACT focal point and the UNFPA programme manager.

During discussion, it is noted that there were few others inputs which were not supported and the group decides to conduct a follow-up spot check to ensure that the IP has implemented the recommendations.

The decision is recorded in the spot check report and the HACT focal point adjusts the Assurance plan for the additional spot check and marks the IP for follow up

***Example 2***

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that there is no supporting documentation to back up the amount charged and that the IP has included DSA allowance in the actual expenditure when travel is only for short distances within the city

The spot checker discusses the observation with the IP management, who states that they could not obtain receipts for fuel purchases and therefore calculated the expenditure based on the approved budgeted amount. They also state that they were not aware that DSA allowance is not permitted for day travel.

The spot checker determines that the explanation is not reasonable, because receipts are available from petrol station and as per the IP’s DSA allowance is given only on overnight travel outside of the city.

The spot checker informs the IP management that the expenditure will be deemed ineligible and that the IP will have to issue a refund for the total amount of fuel costs and vehicle charges for the quarter.

The IP agrees to refund the unsupported expenditures, keep supporting documentation for all fuel charges in the next quarter and not to include DSA allowance. The spot checker documents the finding, recommendation and agreed actions in the spot check report.

The spot checker discusses the report with the HACT focal point and the UNFPA programme manager and it was noted that the fuel costs were the only finding during the spot check. The amount was not significant compared to the overall programme costs and the group is satisfied with the spot check results.

The Programme Manager follows up with the IP to obtain the refund. The HACT focal point records the spot check as completed in the Assurance plan and archives the report and working papers.

***Example 3***

During the testing of a sample of fuel costs and vehicle charges, the spot checker observed that the IP has reported the same amount for fuel expenditure, which is not typical. The provided receipts have the same document number. The programmatic visit report states that beneficiaries indicate that there has been no official visit by IP staff to the implementation location.

In addition to the fuel cost observations, the spot check noticed that an invoice for computer purchase ($5,000) was not in the name of the IP, but to an individual and some amounts have been changed by pen on a few cheques.

The spot checker discusses the findings with the IP management, who states that the poor quality of documentation is because of the quality of vendors and that they have provided all required documentation. .

The spot checker documents the findings and discusses them with the HACT focal point and the UNFPA programme manager. During discussion, it was noted that the IP has not implemented the activities as scheduled and the expenditures recorded do not correspond to the programme implementation status.

The summary of observations is discussed internally with the Chief of Operations and Deputy Representative. It is determined that the risk exists that the IP may be claiming expenditures not supported by documents and concerns over the repeated changes to cheques. The total budget provided to this IP is very large and there are concerns that these types of issues could be systematic

The summary of findings is discussed with the Head of Office, who contacts OAIS for advice.

In consultation with OAIS, the UNFPA office determines to commission a special audit in order to determine if there are fraudulent expenditures reported.

The office determines to suspend any planned direct cash transfer until the audit report is received.

Follow-up on issues identified is the responsibility of the UNFPA programme officer managing the relationship with the IP. While other UNFPA staff may play a supporting role, the programme officer is ultimately responsible for follow-up.

Most issues identified can be resolved directly with the IP through either requesting refunds or ensuring the IP takes action on recommendations made to strengthen internal controls. However, when offices suspect that the IP is systematically claiming ineligible expenditures OAIS is consulted for support and advice.

IV.3 Update the Assurance plan

Once the spot check is completed and documentation is finalized, the HACT focal point:

* Ensures that the spot check report (Annex B) and any other necessary documentation is uploaded in the online IP Assurance System (IPAS).
* Updates the assurance plan for the completed spot check;
* If the spot check report includes high priority findings, takes appropriate action with the IP and completes the follow up tab in IPAS; and
* If a decision is made to conduct additional spot checks or audits, updates the plan for the respective assurance activities.

# **Spot Check Annexes**

[Spot Check Checklist (Annex A)](https://drive.google.com/file/d/0B6fJHWeRFR7bWWdTMDJGVWZwdlE/view)

[Spot Check Report (Annex B)](https://drive.google.com/file/d/0B0zw3YkO8w9GbVRSSW9faE5GY21fcDBGSTZ2X2luRkFxNVdB/view)

[Test of Expenditures Worksheet (Annex C)](https://drive.google.com/file/d/1tKCTTELH690QCWuZSQ_kAJH0gMU9pidN/view)

# Remote Spot Checks

While on-site visits are and remain the preferred way to conduct a spot check of an implementing partner (IP), remote spot checks have been an option at UNFPA when an on-site visit is not possible due to security restrictions, or not cost-effective. In some situations, it is not safe for UNFPA staff to physically reach the IP. In other situations, the IP may not be able to reach their offices either. In response to the COVID-19 pandemic, for example, many governments have enforced restrictions of movement, social distancing and limited face-to-face contact to curb the spread. These measures have a significant impact on the ability to execute assurance activities. UNFPA’s response in this case is guided by the [Guidance Note on Implementing Partner Management during the COVID-19 Pandemic](https://drive.google.com/open?id=1vxlP8WcuB3RhKbmepYZPvJ8S7OXKpAqj).

The objective of this guidance is to assist UNFPA staff or service providers while completing a spot check remotely. It complements the [Spot Check Guidance](https://drive.google.com/open?id=0B0zw3YkO8w9GU2UwR0F6X19ZNW8), which remains valid in all other aspects.

I. Planning

1. **Determine the feasibility of performing remote spot checks**

Considerations that can be taken into account in determining feasibility of remote spot checks include:

* Familiarity with the IP and their management capacity and internal controls e.g. previous spot check visits took place in person, we have a valid micro assessment and/or a recent audit.
* Relevant IP staff have access either to their electronic files or to any hard copy documentation that will be needed by the spot checker.
* The IP has access to  tools for sharing soft copies of supporting  documentation (scanner, scanning apps on the phone, electronic files)
* The IP is able and willing to collaborate with a remote spot check as it may be time consuming for the IP to scan a large number of documents
* IP staff is available to discuss details on the phone or videoconferences.
1. **Prioritization**

For as long as restrictions to on-site visits remain in place, offices should adopt a risk-based approach and conduct remote spot checks based on the following prioritization criteria:

* IPs with high-priority findings and observations from previous monitoring and assurance activities, such as spot checks, audits and programmatic visits;
* IPs for which the office has identified specific  risks due to weak management capacity and internal controls of the partner;
* Significant and higher risk partners that are currently receiving cash transfers and for which assurance activities for the past year could not be  conducted;
* IPs receiving large amounts of cash transfers undertaking higher risk activities e.g. procurement, cash disbursements etc.;
* IPs with significant discrepancies and other issues, such as ineligible expenditure  identified by offices from FACE form reviews undertaken by staff.
1. **What to do if a remote spot check is priority, but not feasible?**

There may be cases when a remote spot check would be a priority, but it is not feasible. The principle to follow in these situations is to find a balance between urgent programme delivery and assurance and to manage the heightened risk that any crisis presents. In these cases, follow the guidance below.

* If the IP is not available or cannot make time due to the urgency of emergency delivery due to the pandemic, agree on a reasonable later time. It is important to keep in mind and to communicate that postponed assurance will take place at the earliest opportunity. Depending on the context and the risks of further implementation without assurance of prior implementation, you may decide to insist on receiving some proof of expenditure for large value transactions or to reconsider disbursement decisions.
* If the IP does not have the necessary connectivity and tools to scan hard copies for example, consider supporting their capacity if necessary as deemed appropriate. If you support IPs with zoom licenses,  mobile phones / mobile phone airtime, scanners, etc., make sure that this is done in proportion to support cost for NGOs and coordinated with other agencies who fund and support the IP;
* When for example asset verification does not allow for remote assurance, use video streaming if possible and/or verify on site at a reasonable, later date;
* If the IP cannot provide supporting documentation for current expenditures, discuss if and how activities are implemented. While the first quarter after an unexpected disruption (such as the pandemic) can be considered a transition period and as a result, supporting documentation may not be available, the IP should ensure necessary documentation for subsequent activities is kept electronically or at their current place of work so that it is available for review during remote spot checks. If such documentation is not available, the office should stop further cash advances and reconsider disbursement decisions.

II. Preparation

After establishing feasibility, the preparation for remote spot checks is very similar to that of on-site visits. The spot checker:

1. plans for additional time it may take to complete the testing remotely, considering that clarifications, additional information and documents can only be sought by email and calls. Experience so far suggests that this can be time consuming;
2. reviews the IP’s transaction list and selects transactions to test using a risk- based approach, identifying significant and unusual expenses as per e [Spot Check Guidance](https://drive.google.com/open?id=0B0zw3YkO8w9GU2UwR0F6X19ZNW8);
3. clearly marks the selected transactions and keeps the document on file;
4. emails the sample list to the IP Focal Point and agrees on the date by which supporting documents are to be received. Supporting documentation should include:
* Proof that the transactions took place (invoice, purchase orders, vouchers, good receipts / transfers/ etc.)
* Proof that payment took place (bank statement, payment voucher, electronic fund transfer, etc.)
* Proof that the transaction was approved (system authorization or manual signature).

Offices can accept scanned copies or digital images of supporting documentation and digital signatures or e-mails as proof of approval.

III. Execution

The spot checker performs the work  at her/his work location (office or home office) by completing the standard testing sheet (Annex C) as per the [Spot Check Guidance](https://drive.google.com/open?id=0B0zw3YkO8w9GU2UwR0F6X19ZNW8) and:

1. reviews supporting documents received for each transaction against at least the criteria given in the Guidance and reflected in the columns of the standard testing sheet (Annex C),
2. if applicable pays particular attention to risks associated with operating under emergencies e.g.:
* IP procurement of PPE and other relevant supplies: any advance  payments made to suppliers; defective, substituted products; excessive prices;
* Expenses: unauthorized expenses (unauthorized reprogramming); salaries for IP personnel where activities could be undertaken and re-assignment to other activities is not done within reasonable time; training/workshop and related travel expenses during the period of restricted movement;
* Documentation: review documents for potential indicators of fraud e.g.  illegible documents, alterations on documents (seek corroborative information from  suppliers where necessary); supporting documents not stamped paid by UNFPA funds.
1. documents the results in the testing sheet by completing the columns only for those transactions with findings
2. if needed creates a list of missing documentation or clarification questions and e-mails it to the IP Focal Point to provide these for verification
3. if needed, a phone or video meeting is scheduled (visual verification of assets and equipment can be done through picture and/ or video calls).

Unexpected disruptions, including the COVID-19 pandemic may result in reprogramming, delays, cancellations, adjustment periods during which IP personnel may not be able to fully or partially deliver agreed activities and some exceptional procedures/processes or expenditures. Offices and IPs are advised to document such circumstances and agreements.  Especially during the transitional period following unexpected disruptions, the  spot checker can assess reasonability of exceptions and reflect this in the findings.

IV. Reporting and Follow up

The spot check completes the report format (Annex B) as per the Spot Check Guidance to document observations and shares it with the IP for response.

If, after due consideration of the circumstances, the spot check resulted in high priority findings and unsupported amounts, in addition to requesting a refund, additional supporting documentation and/or justification, offices should consider:

* Conducting additional remote spot check(s) if feasible and until on-site visits are possible;
* Switching to reimbursement or direct payment modalities;
* Conducting audit at the end of the year

The office considers the impact of the additional risk mitigation measures to ensure that these do not unduly impact programme implementation during emergency programme delivery. If in doubt, reach out to QMU at qmu.group@unfpa.org.

1. Time estimation is indicative and vary depending on several elements, including but not limited to: the IP location; the risk level of the IP and the reliability of the IP controls; the findings arisen during previous assurance activities, the complexity and materiality of programme activities in the period under review, the composition and experience of the spot check team. [↑](#footnote-ref-1)
2. Additional days may be warranted in some exceptional cases. For example, when supporting documentation is pending or a significant number of findings have been observed. [↑](#footnote-ref-2)
3. If the period covered by the spot check spans over two financial years (= all spot checks performed in quarter 2, quarter 3 and quarter 4), give priority to IPs with larger expenditures in the current financial year [↑](#footnote-ref-3)