# **Terms of Reference (ToR) for PARTNER Capacity/ Micro Assessment**

This TOR has been developed to guide United Nations agencies (UN agencies), third party service providers and implementing partners (IPs) through the objectives, scope, logistics and deliverables of performing micro assessments.

**Objective and scope of the micro assessment**

The partner capacity/ micro assessment is performed by a third party service provider and includes a site visit to the IP. The assessment primarily consists of interviews with IP personnel and a review of relevant documentation sufficient to complete the assessment questionnaire (Annex 2). The questionnaire provides an overall risk rating based on responses provided:

* **Low risk –** Indicates a well-developed financial management system and functioning control framework with a low likelihood of negative impact on the IP’s ability to execute the programme in accordance with the work plan.
* **Moderate[[1]](#footnote-1) risk** – Indicates a developed financial management system and control framework with moderate likelihood of potential negative impact on the IP’s ability to execute the programme in accordance with the work plan.
* **Significant risk** – Indicates an underdeveloped financial management system or control framework with a significant likelihood of potential negative impact on the IP’s ability to execute the programme in accordance with the work plan.
* **High risk** – Indicates an underdeveloped financial management system and control framework with a high likelihood of potential negative impact on the IP’s ability to execute the programme in accordance with the work plan.

The overall risk rating is used by the UN agencies, along with other available information (e.g. history of engagement with the agency and previous assurance results), to determine the type and frequency of assurance activities as per each agency’s guidelines and can be taken into consideration when selecting the appropriate cash transfer modality for an IP, based on each agency’s business model (further detailed in section 8).

**Logistics**

The assessment should be completed (including the site visit and report issuance) within eight weeks of engaging the third party service provider. The UN agency/ies’ focal point and/or inter-agency coordinator will introduce the service provider to the IP and facilitate the site visit.

The UN agency/ies provide the following documentation to the service provider for review before starting fieldwork:

* Copy of the latest macro assessments performed for the country, as applicable;
* UN agency/ies’ work plan(s) and programme documents with the IP
* Copies of reports of any partner/ micro assessments or other relevant assessment previously performed on the IP e.g. review of the IPs or Country’s Public Procurement System to determine its compatibility with the UN's Procurement Rules and Regulations
* Copies of reports of any financial or internal control audits and spot checks previously performed on the IP; and
* IP and Programme information as per Annex 1
* Any other documentation that may help the service provider better understand the context from a United Nations perspective.

**Procedures and deliverables**

The third party service provider receives general information regarding the IP and the programme from the UN agency/ies’ focal point and/or the inter-agency coordinator in preparation for the assessment (see Annex 1 and Items to be provided above). The service provider reviews this documentation in advance of performing a site visit to the IP. The service provider should also provide the IP with an advance request of the documents and interviews they would like to have while on site, to ensure efficient use of time.

The third party service provider also completes the micro assessment questionnaire (Annex 2, with instructions) based on the procedures performed during the assessment period. The service provider discusses the results of the questionnaire with relevant IP personnel and the UN agency/ies’ focal point before finalizing it. Upon finalization, the service provider delivers an executive summary, detailing the overall risk rating and specific identified risks, and the completed questionnaire.

The micro assessment report is to be delivered in the format given in Annex 3.

**Qualifications of the third party service provider**

The third party service provider must be experienced in performing assessments similar to a micro assessment and assessing risks related to organizational financial management capacity (i.e. accounting, reporting, procurement and internal controls). The service provider must also have knowledge of the United Nations system and the development sector.

For non-LTA holders, CVs of all members of the assessment team should be provided to the commissioning UN agency/ies and should include details on engagements carried out by relevant staff, including ongoing assignments indicating responsibilities assumed by them and their qualifications and experience in undertaking similar assessments.

**Annex 1. IP and Programme Information**

The following information should be completed at the start of the micro assessment and annexed to the report as per the format in Annex 3.

|  |  |
| --- | --- |
| **Implementing partner name:** |  |
| **Implementing partner code or ID in UN Agency/ies records (as applicable)** |  |
| **Implementing partner contact details (contact name, email address and telephone number):** |  |
| **Main programmes implemented with the applicable UN Agency/ies:** |  |
| **Key Official in charge of the UN Agency/ies’ programme(s):** |  |
| **Programme location(s):** |  |
| **Location of records related to the UN Agency/ies’ prorgamme(s):** |  |
| **Currency of records maintained:** |  |
| **Latest expenditures incurred/reported to UN Agency/ies (as applicable). Indicate the amount (in US$) and the financial reporting period ;** |  |
| **Current or latest cash transfer modality/ies used by the UN agency/ies to the IP** |  |
| **Intended start date of micro assessment:** |  |
| **Number of days to be spent for visit to IP:** |  |
| **Any special requests to be considered during the micro assessment:** |  |

**Annex 2: Micro Assessment Questionnaire**

Please see separately provided Excel format for the questionnaire, with calculation formulae included, which has to be used.

**Instructions**

This questionnaire contains questions related to eight subject areas. Certain questions are classified as “key questions” indicating that they have a greater impact in assessing the effective functioning of the IP’s control framework.

1. Answer each question by selecting ‘Yes’, ‘No’ or ‘N/A’ (for ‘not applicable’) from the drop down menu in the appropriate column.
2. Use the Risk Assessment column to assign a risk rating (high, significant, moderate or low) for each question based on the response obtained. For example, if the question addresses an item that should ideally be marked ‘Yes’ but was marked ‘No’, it should be assessed for the level of risk it presents to the effective functioning of the IP’s control framework. Assigning risk ratings to each question requires judgment by the assessor as to how the response will impact the effectiveness of the IP’s control framework.

**NB: THE APPROPRIATE RISK ASSESSMENT OR “NOT APPLICABLE” MUST BE SELECTED FOR EACH QUESTION. IF THERE ARE QUESTIONS CONTAINING “ERROR” THE RISK RATING FOR THE CATEGORY AND OVERALL WILL BE WRONGLY CALCULATED!**

1. The risk ratings to be used are:
* ***High*** – Response to question indicates a risk to the effective functioning of the IP’s control framework that has a high likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives;
* ***Significant*** – Response to question indicates a risk to the effective functioning of the IP’s control framework that has a significant likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives;
* ***Moderate*** – Response to question indicates a risk to the effective functioning of the IP’s control framework that has a moderate likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives; or
* ***Low*** – Response to question indicates a low risk to the effective functioning of the IP’s control framework and a low likelihood of a potential negative impact on the IP’s ability to execute the programme in accordance with the work plan and stated objectives.
* *N/A – The specific question is not applicable for the IP and therefore no risk rating is assigned. It is not expected to be used regularly.*
1. The risk points column automatically assigns the points to each question based on the response given.
2. Points are assigned as follows:

|  |  |  |
| --- | --- | --- |
| **Risk rating** | **Points: non-key questions** | **Points: key questions** |
| High risk | 4 points | 8 points |
| Significant risk | 3 points | 6 points |
| Moderate risk | 2 points | 4 points |
| Low risk | 1 point | 1 point |

1. Use the ‘Comments’ column next to each question to provide details of the basis for your assessment, and to highlight any important matters. This document will be referenced subsequently by the agency when performing additional assurance activities related to the IP. Sufficient details should be provided in this document for the agency to understand the rationale for your assessment.

**Calculation of risk ratings per subject area section**

For each individual subject area, as well as the overall rating, the risk points are totaled together to provide a score that then fits within one of the bandings for the risk ratings. The banding calculation method is that a low risk rating will be assigned to any sections or overall rating where the risk score is less than or equal to the lowest possible score (based on the number of applicable questions), plus 15% of the difference between the minimum and maximum possible scores. Moderate ratings are given on the same basis, but from more than 15% up to 30% of the range, then significant up to 50%, and anything over 50% is high risk. An example is set out in Note 1, below.

**Note 1 – Method of assigning risk ratings to risk scores**

As per paragraph 5, key questions are assigned double the risk points if the answer is other than “low” risk. Therefore, the risk rating assigned to the key questions has twice the weight in determining the risk rating for the section.

The Excel spreadsheet automatically assigns the risk rating by using the following algorithm:

1. Only the applicable questions are taken into consideration
2. The minimum possible points for the subject area are calculated, that is, if all questions are assigned low risk rating
3. The maximum possible points for the subject area are calculated, that is, if all questions are assigned high risk rating
4. The ranges for each risk rating banding are set out below:

|  |  |
| --- | --- |
| Low risk | Minimum possible score plus 15% of the remaining available risk points |
| Moderate risk | Minimum possible score plus 30% of the remaining available risk points |
| Significant risk | Minimum possible score plus 50% of the remaining available risk points |
| High risk | Anything greater than 50% of the remaining available risk points |

1. The actual risk points are matched with one of the four risk ranges to determine the overall risk category.

The same algorithm is applied when calculated the overall risk rating for the IP.

Assume the following two scenarios with the same risk rating for the questions.

1. Scenario 1: There are four non-key questions having equal weight
2. Scenario 2: The first question is key and the remaining three questions are non-key

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Scenario 1** | **Risk Rating** | **Points** |  | **Scenario 2** | **Risk Rating** | **Points** |
| Question 1 | Significant | 3 |  | Key question 1 | Significant | 6 |
| Question 2 | Moderate | 2 |  | Question 2 | Moderate | 2 |
| Question 3 | Low | 1 |  | Question 3 | Low | 1 |
| Question 4 | Low | 1 |  | Question 4 | Low | 1 |
| Total Risk Points: |   | 7 |  | Total Risk Points: |   | 10 |
| Min score | = 4 \* 1 | 4 |  | Min score | = 4 \* 1 | 4 |
| Max score | = 4 \* 4 | 16 |  | Max score | = 4 \* 4 | 16 |
| Low risk band (15%) | = 4 + ((16 - 4) \* 0.15) | 5.80 |  | Low risk band (15%) | = 4 + ((16 - 4) \* 0.15) | 5.80 |
| Moderate risk band (30%) | = 4 + ((16 - 4) \* 0.30) | 7.60 |  | Moderate risk band (30%) | = 4 + ((16 - 4) \* 0.30) | 7.60 |
| Significant risk band (50%) | = 4 + ((16 - 4) \* 0.50) | 10.00 |  | Significant risk band (50%) | = 4 + ((16 - 4) \* 0.50) | 10.00 |
| High risk band (>50%) |   | = > 10.00 |  | High risk band (>50%) |   | = > 10.00 |
| **Overall risk** | **Moderate** | **7.00** |  | **Overall risk** | **Significant** | **10.00** |

**Annex 3: Micro Assessment Report Format**

**Front Page**

Micro Assessment of [Name of the IP]

Commissioned by [Name of the UN Agency/ies]

Name of the 3rd Party Service Provider

Date

**Table of Contents**

1. Background, Scope and Methodology
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4. Detailed Internal Control Findings and Recommendations

Annex I. Micro assessment questionnaire

Annex II. Implementing Partner and Programme Information

Annex III. Organisational Chart of the Implementing Partner

Annex IV. List of persons met

1. **Background, Scope and Methodology**

**Background**

The micro assessment is part of the requirements under the Harmonized Approach to Cash Transfers (HACT) Framework. The HACT framework represents a common operational framework for UN agencies’ transfer of cash to government and non-governmental implementing partners.

The micro-assessment assesses the IP’s control framework. It results in a risk rating (low, moderate, significant or high). The overall risk rating is used by the UN agencies, along with other available information (e.g. history of engagement with the agency and previous assurance results), to determine the type and frequency of assurance activities as per each agency’s guidelines and can be taken into consideration when selecting the appropriate cash transfer modality for an IP.

**Scope**

The micro-assessment provides an overall assessment of the Implementing Partner’s programme, financial and operations management policies, procedures, systems and internal controls. It includes:

* A review of the IP legal status, governance structures and financial viability; programme management, organizational structure and staffing, accounting policies and procedures, fixed assets and inventory, financial reporting and monitoring, and procurement;
* A focus on compliance with policies, procedures, regulations and institutional arrangements that are issued both by the Government and the Implementing Partner.

**Methodology**

We performed the micro-assessment from [date] to [date] at [describe locations].

Through discussion with management, observation and walk-through tests of transactions, we have assessed the Implementing Partner’s and the related internal control system with emphasis on:

* The effectiveness of the systems in providing the Implementing Partner’s management with accurate and timely information for management of funds and assets in accordance with work plans and agreements with the United Nations agencies;
* The general effectiveness of the internal control system in protecting the assets and resources of the Implementing Partner.

We discussed the results of the micro assessment with applicable UN agency personnel and the IP prior to finalization of the report. The list of persons met and interviewed during the micro-assessment is set out in Annex III.

1. **Partner summary information (taken from “Information” tab of the assessment Excel document)**



1. **Summary of Risk Assessment Results**

***[Executive summary of the overall risk assessment]***.

The table below summarizes the results and main internal control gaps found during application of the micro-assessment questionnaire (in Annex IV). Detailed findings and recommendations are set out in section 3. below.

| **Subject area** | **Risk assessment\*** | **Brief justification for rating (main internal control gaps)** |
| --- | --- | --- |
| **1. Organisation** |  |  |
| **2. People and behaviours** |  |  |
| **3. Activities**  |  |  |
| **4. Reporting and accountability** |  |  |
| **5. Assets and Inventory** |  |  |
| **6. Procurement** |  |  |
| **7. Sub-partners** |  |  |
| **8. Systems** |  |  |
| **Overall Risk Assessment** |  |  |

*\*High, Significant, Moderate, Low*

1. **Detailed Internal Control Findings and Recommendations**

|  |  |  |
| --- | --- | --- |
| **No.** | **Description of Finding** | **Recommendation and IP Management Response** |
| **1.** | ***Example: Insufficient staff training******Priority rating: (High / Medium / Low)****We noted that staff employed in the accounts department, who were primarily bookkeepers / administrators, had not received training on UN requirements for financial management and reporting, and had received only informal “on the job” training on the GABS accounting system.**Lack of sufficient training increases the risk of error and failure to comply with the UN financial reporting requirements.* | *Example:* *The organisation should ensure staff are properly trained and aware of UN financial reporting requirements.****IP Management Response****A training session with the assistants of the UN Agency HACT Focal Point will be organized within the next month.* |
|  | **Etc** |  |
|  |  |  |
|  |  |  |
|  |  |  |

**Annex I. Micro Assessment Questionnaire**

Include here the completed questionnaire.

**Annex II. IP and Programme Information**

|  |  |
| --- | --- |
| **Implementing partner name:** |  |
| **Implementing partner code or ID in UN Agency/ies records (as applicable)** |  |
| **Implementing partner contact details (contact name, email address and telephone number):** |  |
| **Main programmes implemented with the applicable UN Agency/ies:** |  |
| **Key Official in charge of the UN Agency/ies’ prorgamme(s):** |  |
| **Programme location(s):** |  |
| **Location of records related to the UN Agency/ies’ prorgamme(s):** |  |
| **Currency of records maintained:** |  |
| **Expenditures incurred/reported to UN Agency/ies (as applicable) during the most recent financial reporting period (in US$);** |  |
| **Cash transfer modality/ies used by the UN Agency/ies to the IP** |  |
| **Intended start date of micro assessment:** |  |
| **Number of days to be spent for visit to IP:** |  |
| **Any special requests to be considered during the micro assessment:** |  |

**Annex III. Implementing Partner Organizational Chart**

**Annex IV. List of Persons Met**

|  |  |  |
| --- | --- | --- |
| **Name** | **Unit/organization** | **Position** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

1. Throughout agencies' policies and systems, "moderate" and "medium" may be used interchangeably to describe the risk rating between low and significant". [↑](#footnote-ref-1)