Micro Assessment

The Micro Assessment is one of the key elements of the new Harmonized Approach to Cash Transfer to Implementing Partners that will need to be carried out by UNDP, UNFPA, UNICEF and WFP, i.e. the UNDG Executive Committee, or ExCom, agencies. It is a review of a partner's financial management capacity.

Why Assess Partners ?

There are two reasons for assessing the partners with whom we will work:

- **Capacity Development:** to review the strengths and weaknesses of an implementing partner's financial management system. The assessment should include recommendations to strengthen less robust areas. This information should then be fed into the overall capacity development plan.
- **Financial management:** to help United Nations agencies identify the most appropriate assurance methods, and best procedures to use for transferring cash.

The Micro Assessment should be open and transparent and you should fully involve the partner institution and ensure that the Government coordinating authority is informed about the process. **The Assessment is not used to establish conditionality**. Rather it is intended to help guide the type of procedures according to the differing level of risk. In other words, if the Assessment reveals weakness in the financial management, it does not mean that you do not work with that partner.

Who Is Assessed?

You should assess all national implementing partners that will receive cash transfers of over $100,000 in any one year. Sometimes more than one United Nations agency will be working with a partner and in that case the total funds transferred by all the agencies should be taken into account when calculating whether to assess. And where two or more United Nations agencies are working with a common partner, they should carry out the assessment together.

When to Assess

As a general rule, you should assess national implementing partners at the latest **before the Annual Work Plan is signed**. Normally there would be one assessment of each implementing partner during each programme cycle. In order to guide the process, the Guidelines suggest that Agencies prepare an **annual assessment and audit plan** for the partners with whom they will work. You should give priority to partners who either receive large cash transfers or who work with many United Nations agencies.

Agency discretion and judgement come into play when deciding when to conduct a Micro Assessment. If you feel that a financial management capacity assessment would be helpful but the level of cash transferred is below $100,000 then you can still choose to carry out an assessment. In this case, a lighter version would probably be appropriate.

You should organise an Assessment if there are **significant shifts in the operating environment** of the partner organisation, for example, a change in leadership, introduction of new procedures, or a review of existing practices.

In some circumstances, such as an **environmental or political emergency**, it may not be feasible or indeed possible to conduct full and thorough assessments of partners. In this case you should use the procedures and assurance activities corresponding to a "high risk" situation. Similarly, if for whatever reason no assessment has been completed for an implementing partner receiving over $100,000 (or the locally agreed ceiling) in cash from a United Nations agency, then you should automatically assume a "high risk" and adjust your procedures and assurance activities accordingly.

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Micro Assessment (continued)

Assessment Levels

The $100,000 ceiling is intended to be advisory and agencies have discretion and flexibility to interpret as dictated by local circumstances. Agencies may, if they feel there is a strong case to be made, set a higher or lower ceiling as appropriate to the operating environment.

The Assessment Process

The Micro Assessment reviews the implementing partner's system of accounting, reporting, auditing and internal controls. The assessment has **two levels**. The first level requires the completion of a short one and half page checklist – **Checklist A**, contained in Annex III of the Framework. If the checklist confirms that risk is low, then you do not need to carry out another assessment.

However if you have noted areas of concern or if information was missing, then you need to carry out a more detailed assessment using **Checklist B**, which can also be found in Annex III. This Checklist is based on the International Federation of Accountants (IFAC) International Standard on Auditing 400 "Risk Assessment and Internal Control".

Who Does the Work ?

Staff from United Nations agencies can carry out assessments if they have relevant experience and qualifications. Alternatively, you can choose to contract consultants from an experienced and trusted private accounting firm. The costs should be shared amongst the agencies who will work with the partner in line with the proportion of funds they will transfer.

It is a good idea for the agency that has most experience with the partner concerned to coordinate the assessment and to take the lead on the identification and recruitment of the consultant (if that is the path chosen).

After the Assessment

Once the Checklists have been completed, agencies use the information to decide on the level of risk in using and reporting on cash transfers for a particular partner. A **financial management assessment report** is then put together. This is a concise document - normally no more than **four pages excluding annexes** – that includes the following:

- an executive summary
- information on the assessment methodology
- description of the financial management capacity in different areas
- description of the most significant risks and recommendations for mitigating them
- the completed checklists as annexes

You should discuss the draft report with the implementing partner concerned and share a copy of the final report.

Based on the report, the Agencies decide on the most appropriate cash transfer modality to use. All of the Agencies working with that implementing partner and using the same modality will use the same procedures. They will also coordinate their assurance activities such as spot-checks and audits.

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