

## **Appendices**

### **Appendix I. Terms of Reference for Macro Assessment Performed by Third Party Service Provider**

These terms of reference (TOR) have been developed to guide United Nations agencies, third party service providers and implementing partners (IPs) through the objectives, scope and deliverables of a requested macro assessment.

#### **Objective and Scope of the Macro Assessment**

To ensure adequate awareness of the public financial management (PFM) environment in which agencies provide cash transfers to IPs, a desk review of assessments of the PFM system will be conducted. The term ‘PFM’ in the harmonized approach to cash transfers (HACT) framework is broadly defined to include a range of considerations for operating within the country; it is not limited solely to the financial environment but also includes national procurement capacity, exchange rate volatility, presence of informal/black markets, etc. This assessment is called a macro assessment.

The two primary outputs of the macro assessment are:

1. An outline of the risks related to use of the PFM for cash transfers within the country by governmental IPs, as well as other country-specific knowledge for non-governmental IPs; and
2. A determination on whether the government’s supreme audit institution (SAI) has the capacity to undertake scheduled and special audits of government IPs.

#### **Macro Assessment Procedures**

The third party service provider performing the macro assessment collects available PFM assessments to aid in detailing the risks related to the use of PFM systems for cash transfers within the country. This includes considerations regarding the use of the SAI and broader country conditions, such as environmental conditions, legal regulations, judicial environments, exchange rate volatility and the presence of informal/black markets, etc.

Typical sources of PFM assessments are:

##### ***World Bank***

- Country financial accountability assessments. These vary in format and presentation.
- Public expenditure reviews. These analyse a country’s fiscal position, expenditure policies and public expenditure management systems.
- Country procurement assessment reviews. These review public procurement institutions and practices.
- Institutional and governance reviews. These review the quality of accountability, policymaking and service delivery institutions.
- Capacity assessments of heavily indebted poor country PFM. Performed jointly with IMF, this assessment covers some of the same issues as a country financial accountability assessment.

### ***Assessments by other institutions***

- Fiscal transparency reviews (IMF). These use the code of good practices on fiscal transparency adopted by IMF in 1998.
- Diagnostic study of accounting and auditing (Asian Development Bank).
- Ex-ante audits of PFM systems (European Commission).
- Assessments by CIDA, DFID, EU, ADB and other agencies.

The preliminary results of the macro assessment are discussed with the agencies implementing the HACT framework, both to provide a summary of the results and to incorporate agency-specific experience and knowledge of the country into the final assessment.

### **Deliverables**

The third party service provider summarizes the findings on the risks related to the use of PFM systems for cash transfers within the country in the macro assessment checklist (provided in Annex\_I).

### **Qualifications of the Third Party Service Provider**

The third party service provider should be experienced in performing assessments similar to a macro assessment and assessing risks related to PFM systems. The provider should also have financial management experience and knowledge of the United Nations system and the development sector.

Curriculum vitae (CVs) of all members of the assessment team should be provided. They should include details on engagements carried out by the staff members, including ongoing assignments indicating responsibilities assumed by them, and their qualifications and experience in undertaking similar assessments.

### **Items to be Provided to the Service Provider before Fieldwork Begins**

The agency provides the following documentation before starting fieldwork:

- Summary of primary programme initiatives and IPs in the country;
- Details of macro assessments previously performed in the country; and
- Any other documentation that may help the provider better understand the country context from a United Nations perspective.

The third party service provider should review the information received before performing the assessment.

## Annex 1. Macro Assessment Checklist

### General Overview of Macro Assessment

<b>Country being macro assessed</b>	
<b>Agencies utilizing HACT framework in country</b>	
<b>Agency contact person(s)</b>	
<b>Start/end date of macro assessment (dd/mm/yyyy – dd/mm/yyyy)</b>	
<b>Has a macro assessment been performed for this country previously (by any organization)?</b>	
<b>Member(s) of the macro assessment team (Name, designation, section/organization)</b>	
<b>Sources of information used in assessment (title, date published, source, etc.)</b>	

A risk consideration checklist is provided in Annex 2.

## Annex 2. Risk consideration checklist

		Risk Consideration					
No.	Indicator	High risk	Significant risk	Moderate risk	Low risk	Indicator risk level	Comment
1	The annual budget contains all significant government expenditures, including relevant donor contributions	No			Yes		
2	Budget and performance	Budget decisions are only nominally debated. Little consideration of previous performance is taken into account when setting future budgets.			Budget decisions are fully debated with assistance from expert committees. Full consideration of previous performance is taken into account when setting future budgets.		
3	Budget execution	Government historically does not execute budgets as planned.	Government historically executes budgets as planned, but there are significant exceptions.	Government historically executes budgets as planned with limited exceptions.	Government historically executes budgets as planned without exceptions.		
4	To what extent are internal controls and financial procedures adhered to?	Procedures are frequently over-ridden or ignored. Emergency procedures are routinely used.	Procedures are generally followed, but there are significant exceptions. Doubt exists as to whether or not the internal control system can be relied upon.	Procedures are generally followed. While exceptions exist, they are not frequent enough to prevent reliance on the internal control system.	Always.		
5	Bank reconciliations	Many accounts are not reconciled monthly. Reconciliations are	A number of significant accounts are not reconciled	Generally banks are properly reconciled each month.	Performed to a high standard for all bank accounts at least once a month.		

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
		often poorly performed.	monthly. Quality is sometimes poor.	Exceptions exist but appropriate follow-up action is taken in all cases.			
6	<b>Transfer of cash resources</b>	Cash transfers from central/regional levels to project level take more than one month.	Cash transfers from central/regional levels to project level take two to four weeks.	Cash transfers from central/regional levels to project level take one to two weeks.	Cash transfers from central/regional levels to project level take a week or less.		
7	<b>Reporting of cash and asset position to government</b>	Analysis of cash and asset position made to government contains significant omissions.			Full analysis of cash and asset position is made to government.		
8	<b>Financial audit / SAI auditor general</b>  <i>*For decentralized governments, consider consolidated audit coverage, if available.</i>	External audit covers less than 80% of central government expenditures.	External audit covers 80% to 90% of central government expenditures	External audit covers 90% of central government expenditures.	External audit covers all central government expenditures.		
9	<b>SAI independence</b>	SAI reports to government agency.			SAI reports to legislature (or equivalent justice system).		
10	<b>Audit standards applied by the SAI</b>	SAI applies national audit standards, which are significantly inconsistent with international standards.			SAI applies international audit standard.		

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
11	<b>Follow-up action to audit reports</b>	Points raised by external audit are infrequently followed up.	Points raised by external audit are usually but not always followed up. A significant number of points recur in following years.	Points raised by external audit are always followed up. In a few cases points recur in following years.	Points raised by external audit are always properly followed up. Points generally do not recur in following years.		
12	<b>Country has a national procurement framework</b>	No			Yes		
13	<b>Transparency of audit process</b>	Statutory external audit reports are infrequently published. They are rarely debated in the media, even when of public interest.	Most statutory external audit reports are published. They are sometimes debated in the media when of public interest.	All statutory external audit reports are published. They are usually debated in the media when of public interest.	All statutory external audit reports are published. They are debated in the media when of public interest.		
14	<b>Staff qualifications and skills</b>	It is often unclear whether staff have the skills and qualifications necessary to discharge their duties.	In some cases it is unclear whether staff have the skills and qualifications necessary to discharge their duties.	In only some isolated cases it is unclear whether staff have the skills and qualifications necessary to discharge their duties.	It is always clear that all staff have the skills and qualifications necessary to discharge their duties.		
15	<b>Financial systems</b>	Financial systems only capture and report on the most basic financial data, and this is frequently unreliable. System maintenance and	Financial systems only capture and report on the most basic financial data. While there are system maintenance and performance	Financial systems are adequate for most but not all data capture and reporting needs. They are reliable	Financial systems are adequate for data capture and reporting needs. They are reliable and properly maintained.		

No.	Indicator	Risk Consideration				Indicator risk level	Comment
		High risk	Significant risk	Moderate risk	Low risk		
		performance is generally poor.	problems, generally the system is stable.	and properly maintained.			
16	<b>Environmental conditions</b>	Natural disasters or significant events regularly occur that displace citizens and resources.			Natural disasters or significant events that displace citizens and resources rarely or never occur.		
17	<b>Exchange rate volatility</b>	Foreign exchange rates fluctuate significantly on a daily basis.	Foreign exchange rates fluctuate significantly on a weekly or monthly basis.	Foreign exchange rates have remained relatively consistent, with the exception of significant one-off fluctuations.	Foreign exchange rates do not fluctuate significantly.		
18	<b>Existence of a black market</b>	Black market is prevalent and influential in the country.	Black market exists and has significant influence in the country.	Black market exists in the country, but effective actions are being taken to eliminate or limit its influence in the country.	Black market may exist but does not have an influence in the country.		
19	<b>&lt;Any other specific items identified by agency&gt;</b>  <i>Examples: Inflation, reliability of statistics bureau, parliamentary control, unemployment rate, transparency of information collection</i>						