

**AUDIT
OF THE
HUMAN SECURITY PROGRAM (HSP)**

FEBRUARY 2002

Audit Division (SIV)

TABLE OF CONTENTS

| | |
|--|---|
| EXECUTIVE SUMMARY | 1 |
| SCOPE AND OBJECTIVE | 2 |
| OBSERVATIONS AND RECOMMENDATIONS | 3 |
| 1.1 Project Applications | 3 |
| 1.2 Review, Eligibility and Approval | 3 |
| 1.3 Agreements and Payments | 3 |
| 1.4 Monitoring and Reporting | 4 |
| 1.5 Project Management | 5 |

EXECUTIVE SUMMARY

At the request of the Peacebuilding and Human Security Division (AGP), the Internal Audit Division (SIV) undertook, in the fall of 2001, an audit of selected Human Security Program (HSP) project files. This audit was conducted to provide AGP with an assessment of its compliance with the Departmental policy as it applies to contributions.

The Peacebuilding and Human Security Division (AGP) delivers DFAIT's Human Security Program. The program is funded until 2005, and is managed by two Program Managers. The total value of the Human Security Program is \$10 million, with approximately 90 projects funded. Nine files were audited, representing ten percent of the total number of projects.

The project files audited were in compliance with Departmental policy. The nine project files were audited against a generic SIV audit checklist that is used for grants and contributions audits. Files were well organized and contained all of the required documentation. All Contribution Agreements reviewed included clauses obligating recipients to keep records and to provide reports, and the right of the Minister to audit.

Although the project files audited were in compliance with Departmental Policy, AGP could improve its documentation of each recipient's performance by preparing an overall assessment report, providing a sound base to evaluate each project and complete the file.

This report contains four recommendations. All four have been effectively dealt with by Program Management.

SCOPE AND OBJECTIVE

The scope of this audit included an examination of nine project files from the fiscal year 2000/2001. The approach included an examination of relevant documentation on file and interviews with divisional staff. AGP requested this audit to assess program compliance with Departmental Procedures and Policy with respect to its processes in grants and contributions management. This was the first time AGP had requested an independent audit of the Human Security Program project files.

OBSERVATIONS AND RECOMMENDATIONS

1.1 Project Applications

1.1.1 All the files reviewed contained the applicants' request for funding. Requests contained sufficient information to enable Program Managers to assess the project against program criteria.

1.2 Review, Eligibility and Approval

1.2.1 All the files examined contained a project assessment in the form of a Human Security Program project proposal sheet. The proposal sheet included a project description and assessment of relevance and sustainability, as well as a performance framework showing identifiable risks and mitigation strategies. The risks identified related to the project not succeeding or results not being achieved, and these were succinctly addressed in the proposal document. Files showed that project stakeholders (for example, other Divisions and CIDA) were consulted, and all files contained a Project Approval document. Approval of the Minister was obtained as per requirements of the Treasury Board Submission.

1.3 Agreements and Payments

1.3.1 All agreements examined made use of a Departmental template created for Contribution Agreements, with Annex A, "Estimated Budget", duly completed in each case.

1.3.2 The vetting of all draft agreements by SMFH prior to signature of the recipient is an AGP best practice. Vetting of agreements by SMFH was found in only four of the project files, representing 45 percent of the sample. Those files not vetted by SMFH were found to incorporate the appropriate terms and conditions in the Contribution Agreement.

1.3.3 In each file examined, it was found that final payment was made based on a project activity report, which provided a detailed analysis on project outcomes, accompanied by a financial report showing a summary of expenditures incurred. The financial reports varied in format and level of detail and were not certified by an appropriate recipient representative. Discussions with management revealed they were searching for the best practices on closing the financial component of projects, including certification of financial reports or the actual audit of recipients.

Recommendations for AGP

- 1.3.4 Draft Contribution Agreements should be vetted by SMFH prior to their being sent for signature to the recipient organization.**
- 1.3.5 For purposes of closing the financial component of projects, procedures should be developed that include the following elements: risk assessment of recipients; program requirements for recipient financial reports, including sign off by recipient representative; and program requirements for audit of recipients. AGP should take into account the directives provided by the Treasury Board Guide on Transfer Payments.**

AGP Responses

- 1.3.4 SMFH has agreed to AGP's request to review the standard HSP Contribution Agreement template. SMFH will indicate to us those words or phrases that we can modify to suit specific projects without incurring the need for subsequent vetting by SMFH. It is agreed that any HSP Contribution Agreement that we modify beyond the words or phrases that SMFH has indicated will in future be vetted by SMFH prior to their being sent for signature to the recipient organization.**
- 1.3.5 AGP has added a new section and revised the terms of its "Project Administration Risk Management Framework". This new 'check-list' is placed on each project file.**

1.4 Monitoring and Reporting

1.4.1 In each of the nine files examined, a final activity report, as well as an expenditure report, had been received as stipulated in the Contribution Agreement. In seven of the files, there was no assessment of the final project activity reports by Project Officers in the form of commentary on or challenge to the recipient reports. AGP has developed a "Project Administration Risk Management Framework" control checklist which is quite detailed. Being a recently developed tool, it was used in only three of the projects, and was not fully completed in those cases. The Project Officer's overall assessment, plus the Human Security Program checklist, would not only complete the file but also provide a sound base to evaluate each project. It would facilitate a year-end assessment of all program activities that is not currently being completed for all projects.

Recommendations for AGP

- 1.4.2 The Human Security Program developed control checklist should be utilized throughout the project life-cycle to improve ongoing monitoring.**
- 1.4.3 A project completion or summary report should be developed and implemented to improve evaluation of program objectives.**

AGP Responses

- 1.4.2 All Project Officers in AGP and IDC will be instructed to use the above check-list throughout the project life-cycle and sign off at the end of each project thereby closing the file.**
- 1.4.3 The new 'Project Closing' section of the revised project checklist contains space for "project notes". Project Officers will be directed to provide a summary or evaluation of the project, as needed, or for them to make observations or lessons-learned about the project where these are not found in the recipient's final narrative or financial report.**

1.5 Project Management

- 1.5.1 All files were well organized. The status of all files was apparent, making it easy to transfer files to a new officer.**