



International Federation
of Red Cross and Red Crescent Societies

**OFFICE OF INTERNAL AUDIT
AND INVESTIGATIONS**

**INTERNAL AUDIT OF THE PRETORIA COUNTRY CLUSTER OFFICE
REPORT NO. IA-2016-05**

AUDIT PERFORMED: MAY/JUNE 2016

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PART I INTRODUCTION & EXECUTIVE SUMMARY

1. BACKGROUND AND CONTEXT

The Pretoria Country Cluster office (the "Office") of the International Federation of Red Cross and Red Crescent Societies (IFRC) recently relocated from Gaborone, Botswana to Pretoria, South Africa. The cluster is part of the Africa Region.

The cluster's 2016 operational plan, outlines the results that the National Societies of Angola, Botswana, Lesotho, Namibia, Malawi, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe plan to achieve with the support of the IFRC in 2016, in the areas of: disaster risk reduction, shelter, livelihoods, health, water and sanitation, culture of non-violence and peace, social inclusion, and migration. The main recent emergency appeals within the cluster include food insecurity programmes in Lesotho, Malawi and Zimbabwe. In May 2016, a concept to strengthen community resilience to drought in southern Africa was developed for the period 2016 to 2019, with an estimated budget of ~CHF110 million. The aim of the programme will be to support one million people who are food insecure in seven countries in the region.

As at the audit, the Office employed four national and four international staff, and was overseeing a 2016 budget of ~CHF6.9 million for countries within the cluster.

The last internal audit of the Office was performed by the Office of Internal Audit and Investigations (OIAI) in March 2013. The current internal audit was performed between May and June 2016.

2. OBJECTIVE OF THE AUDIT

The purpose of the audit is to provide management with reasonable assurance in relation to the adequacy and effectiveness of governance, risk management and control processes.

This is achieved by focusing on the following:

- a) *Effectiveness*: To assess the adequacy and effectiveness of the processes, systems and internal controls (including segregation of duties, delegation of authority, and risk management);
- b) *Efficiency*: To appraise the economic and efficient use of resources;
- c) *Asset safeguarding*: To appraise the safeguarding of assets which includes human resources, financial, and other tangible, as well as non-tangible (e.g. reputation and branding) assets;
- d) *Reporting*: To assess the reliability and integrity of financial and operational information, and the means to report such information; and
- e) *Compliance*: To assess the compliance with relevant laws, regulations and the Federation Secretariat's policies and procedures.

3. SCOPE AND METHODOLOGY

The scope of the audit includes a review of the following, with a risk based approach used to prioritize the audit activities:

A) Oversight and Risk management

- Risk management (including the process to identify, assess and manage risk), governance and oversight.
- Coordination and organization of work, including communication.

- Legal risk management including contracts management, and integration agreements with Partner National Societies.

B) Programme and partnerships management

- Programme management including of Appeals and Disaster Relief Emergency Funds (DREF), and planning, monitoring, evaluation and reporting systems.
- Resource development, including resource mobilization, pledge management, and partnerships.
- Logistics, procurement and fleet management.
- Security management.

C) Operations support

- Finance, including accounting, treasury, cash and banking, and supporting documentation for expenditure and journal transactions.
- Human resource management, including payroll, recruitment, and performance management.
- Administration, including travel, filing and archiving.
- Assets and inventory safeguarding.
- Information systems including backups.

Conclusions of the audit are based on the review and analysis, on a test basis, of relevant information. The scope of internal audit includes reviewing the risks of fraud, but does not include detecting and investigating fraud.

4. SUMMARY OF KEY FINDINGS AND MANAGEMENT ACTION PLAN

*Number of agreed action points by section/priority**

SECTION	Agreed Action Points		
	High Priority	Medium Priority	Low Priority
OVERSIGHT AND RISK MANAGEMENT	2	3	-
A1 Risk management, oversight and monitoring	1	1	-
A2 Organisation, coordination and communication	-	1	-
A3 Legal and supplementary services	1	1	-
PROGRAMME AND PARTNERSHIP MANAGEMENT	2	3	1
B1 Programming, planning, monitoring, evaluation, and reporting	1	1	-
B2 Resource development and partnership management	-	1	-
B3 Logistics, procurement and fleet	1	-	1
B4 Security	-	1	-
OPERATIONS SUPPORT	3	8	1
C1 Finance	3	3	-
C2 Human resources	-	4	-
C3 Administration	-	1	-
C4 Assets and inventory	-	-	1
C5 Information systems	-	-	-
TOTAL AUDIT AGREED ACTION POINTS	7	14	2

*The various priority levels are defined in Annex 1.

Improvement areas

Observations which had a primary risk relating to the audit objectives of effectiveness, efficiency, safeguarding of assets, and reporting are summarised below.

Audit objectives		High Priority	Medium Priority	Low Priority
a)	Effectiveness	2	4	-
b)	Efficiency	-	1	-
c)	Asset Safeguarding	5	9	2
d)	Reporting	-	-	-
Total		7	14	2

In relation to the audit objective of compliance, 14 of the above observations/action points were caused in part by compliance related matters.

A summary of the high priority (and other important medium priority) risks by audit objective is as follows:

Effectiveness

There are two high priority management action points (#1, #6) with a primary risk related to effectiveness. To improve effectiveness, the office should:

- *Establish risk management practices in major initiatives; prepare a decision paper for major initiatives which outlines the key risks, as well as an action plan to mitigate the risks; and complete and document the risk assessment management checklist for cash based programming (Agreed action point #1).*
- *Implement a process to ensure project budgets are managed effectively; and finalise the planning process for the Community Resilience project which should include adequate resources to effectively manage and implement the programme (Agreed action point #6).*

Efficiency

There are no high priority management action points with a primary risk related to efficiency. There is one medium priority management action point (#20). To improve efficiency, the office should:

- *Request training and guidance from the region in relation to the content to be retained in personnel files. This could include: roles and responsibilities with the Regional office in relation to document retention; filing for recruitment including documenting the final approved decision for the selected candidate; and documentation in relation to probation reviews (Agreed action point #20).*

Asset Safeguarding

There are five high priority management action points (#5, #9, #14, #15, #16) with a primary risk related to asset safeguarding. To improve asset safeguarding, the office should:

- *Restrict procurement at the Cluster to authorised persons/functions to ensure that the required procurement procedures are followed; tender for, and establish service agreements with regularly used services; establish a database of prequalified suppliers; assess the risks in relation to IFRC directly paying suppliers for procurement performed by the National Society; and reinforce and communicate the required procurement process with the respective procuring entities (Agreed action point #9).*
- *Enforce staff members to sign their working advance settlement, prior to line manager's approval, and validation by finance; and follow-up the two cases in relation to working advances without adequate documentation, identify the causes, and if required, take steps to recover the funds (Agreed action point #14).*
- *Inform the bank to immediately remove from the authorised signatory list, the existing signatories who are no longer staff members; review the bank correspondence file to ensure this is up-to-date; ensure the completeness of bank account reconciliations and obtain supporting documents to justify the differences; transfer dormant funds to operating bank accounts; and ensure that budget codes are received prior to making a payment such that all transactions are timely recorded in CODA (Agreed action point #15).*
- *Document the process for allocating financial charges and attach this as supporting documentation; establish a monitoring process to ensure that cash requests can be substantiated and are reasonable and realistic for the operations; and strengthen segregation of duties with available staff (Agreed action point #16).*
- *Agreed action point #5 was also identified as high priority and was reported to management separately.*

Reporting

There are no high priority management action points with a primary risk related to reporting.

PART II DETAILED OBSERVATIONS & MANAGEMENT ACTION PLAN

NO. IA-2016-05

SECTION A – OVERSIGHT AND RISK MANAGEMENT

Good practices

- ✓ Mapping of Red Cross/Red Crescent Movement activities in the region to promote coordination.

A1 RISK MANAGEMENT, OVERSIGHT AND MONITORING

A1.1 Risk management

Risk management processes

The audit reviewed a sample of appeals and major initiatives of the Pretoria Cluster (the “Cluster”) to assess whether risk management processes were in place, and if they were effective. It was noted that:

- Risk identification is included in planning documents such as the 2016 Cluster operational plan as well as five of the six emergency plans of action (EPOA) reviewed.
- Two of the EPOAs reviewed included significant cash based programming (over 30%) of the respective total appeal budgets. The Cluster was aware of and implementing parts of the IFRC the Cash Based Programming (CBP) procedures. However, there was no documented risk management checklist as per the procedures.
- A risk register has not yet been developed for the Cluster, although during the course of the audit the process had commenced.
- Risk identification and assessment is not part of all major decisions such as the relocation of the office from Botswana to South Africa. This relocation has resulted in a number of risks materialising (see below).

Relocation from Botswana to South Africa

The Cluster relocated from its premises in Botswana to South Africa in January 2016. However, a decision paper which documented the reasoning, as well as the risks involved for the relocation was not able to be provided to the auditors. The relocation has resulted in a number of risks materialising such as challenges in recruitment, additional costs, and has also impacted the scale of work which can be performed.

Agreed Action 1:

The Office agreed to:

- a) Establish risk management practices in major initiatives. This should include a risk assessment and risk action plan for appeals, as well as a risk register which should be maintained for the cluster.
- b) Prepare a decision paper for major initiatives which outlines the key risks, as well as an action plan to mitigate the risks.
- c) Complete and document the risk assessment management checklist (as per the CBP procedures) for cash based programming.

Manager responsible for the action plan: Head of Country Cluster

Due Date: December 2016

Priority Rating: High

A1.2 Governance and oversight

The Cluster supports National Societies in ten countries (Angola, Botswana, Lesotho, Namibia, Malawi, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe). The IFRC has a presence in three of these countries being Botswana (the previous Cluster office), South Africa (Cluster office), and Zimbabwe.

The IFRC Zimbabwe office provides logistics support, as well as supplementary services to three integrated Partner National Societies (PNS) operating in-country. However, there is no Head of Country office for Zimbabwe, and the office is remotely managed by the Head of Cluster in South Africa, impacting the timeliness and the adequacy of the oversight of the office.

Agreed Action 2:

The Office agreed to review the existing oversight structure for the Zimbabwe Country office and identify:

- a) whether any reorganisation is required to improve efficiency/cost effectiveness of the current setup.
- b) tasks which can be delegated to a senior staff member at the office, and what tasks require oversight and management from the Cluster office in Pretoria.

Manager responsible for the action: Head of Country Cluster

Due Date: December 2016

Priority Rating: Medium

A2	ORGANISATION, COORDINATION AND COMMUNICATION
A2.1	<p>Organisation</p> <p><u>Cluster office organisation</u></p> <p>The reorganisation of the Cluster following the relocation to South Africa has not yet been finalised. An organogram has been drafted but due to the challenges of the relocation, the recruitment process has not yet commenced for all positions. There are vacancies in relation to Planning/Monitoring/Evaluation/Reporting (PMER), Programmes, Partnerships/Resource mobilisation, and Communications. For operations support such as human resources, finance and administration, these functions are being temporarily performed by national staff from the previous cluster office in Botswana.</p> <p>Due to the inability to recruit national staff in South Africa, the existing temporary staff are on short term contracts. Further, staff are currently dispersed in two office locations (Botswana and South Africa) which impacts efficiency as well as provides challenges in relation to communication.</p>
A2.2	<p>Coordination and communication</p> <p><u>Coordination</u></p> <p>There were no reportable issues noted in relation to coordination.</p> <p><u>Roles and responsibilities and matrix management</u></p> <p>The Secretariat is operating under a matrix management structure. Interviews with staff noted that the Cluster objectives are clear and this is elaborated in the 2016 operational plan. However, clarity on how matrix management works in practice, especially between the Cluster vis-à-vis the Region and Geneva, have not yet been established, nor is there a document to establish the roles and responsibilities vis-à-vis the Region and Cluster.</p>
<p>Agreed Action 3:</p> <p>The Office agreed to:</p> <ol style="list-style-type: none"> a) Finalise the reorganisation, and source surge capacity for the recruitment process, and/or key technical areas (e.g. PMER/Resource mobilisation) should there be an anticipated lengthy transition. b) Document the roles and responsibilities of the Cluster, and how matrix management will function (consistent with the Secretariat communication guidelines) i) vis-à-vis the Region and the Cluster; and ii) vis-à-vis the Cluster and the respective country office(s). <p>Manager responsible for the action: Head of Country Cluster</p> <p>Due Date: December 2016</p> <p>Priority Rating: Medium</p>	

A3	LEGAL AND SUPPLEMENTARY SERVICES
A3.1 Contract management	
<p>Contracts entered into by the Cluster are approved using a manual process and the office is not yet implementing the IFRC e-contracts system. The contract approval process is either through email or on the signed contract. A sample of contracts were reviewed and it was noted that:</p> <ul style="list-style-type: none"> - A contract database has commenced in the administration function, but there is no up-to-date contract database which includes contracts such as cooperation agreements and project agreements. - The standard IFRC contract templates are not used for cooperation agreements nor project agreements, which may result in the Federation's interests not being adequately protected. - Project agreements are established in local currency for some National Societies and in Swiss francs for others. The IFRC working advance to National Societies procedures state that all working advances are to be made in Swiss francs with exceptions to be approved by the Chief Finance Officer. This approval was not obtained for the agreements in local currency. - The agreements sign off sheet is not being used to ensure that all contracts have the required validation and technical approval as per the contract approvals matrix. 	
<p>Agreed Action 4: The Office agreed to:</p> <ol style="list-style-type: none"> a) Establish contracts and agreements using the standard IFRC templates (on Fednet), and seek IFRC legal advice where different templates are being used. b) Implement the contract sign off sheet to ensure that all relevant functions validate and provide technical approval. This should be performed through the e-contracts system (once implemented in the Cluster), or in the interim, by using the manual sign-off sheet. <p>Manager responsible for the action: Head of Country Cluster Due Date: December 2016 Priority Rating: Medium</p>	
A3.2 Supplementary services	
Reportable issues in relation to supplementary services are noted in A1.2 above.	
A3.3 Other legal matters	
<p>The audit reviewed the legal management processes. A number of performance improvement recommendations were made which are reported separately to management.</p>	
<p>Agreed Action 5: As per A3.3 above.</p> <p>Manager responsible for the action: Head of Country Cluster Due Date: September 2016 Priority Rating: High</p>	

SECTION B – PROGRAMME AND PARTNERSHIP MANAGEMENT

Good practices
✓ Mission reports are prepared as standard practice following monitoring visits to projects.

B1	PROGRAMMING, PLANNING, MONITORING, EVALUATION AND REPORTING
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<p>B1.1 Project management</p> <p><u>General project management</u></p> <p>For 2015, the Cluster recorded expenditure of ~CHF8.0million against an annual budget of ~CHF9.4million. A review of the project management processes noted that:</p> <ul style="list-style-type: none"> - Cooperation and project agreements using the standard IFRC template were not established for all projects (see also A3.1). - There are projects that did not have budgets established by the end of March 2016. Two of these projects had expenditure incurred (PMZ041 and PZW023). - The budget holders for projects have not yet all been reassigned in the Appeal/Pledges software (APPLE). - There were projects/appeals that are closed but have outstanding fund balances which have yet to be transferred. <p><u>Community resilience to drought in southern Africa</u></p> <p>In May 2016, a concept to strengthen community resilience to drought in southern Africa was developed for the period 2016 to 2019, with an estimated budget of ~CHF110 million. As at the audit, a detailed operational plan, partnership and resource development plan, and budget have yet to be developed to implement this programme.</p>
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<p>Agreed Action 6:</p> <p>The Office agreed to:</p> <ol style="list-style-type: none"> a) Implement a process to ensure project budgets are managed effectively including: i) establishing and approving budgets prior to project expenditure being incurred; ii) transferring closed project balances; iii) project managers are timely reassigned in APPLE and match the budget holder who approves project expenditure. b) Finalise the planning process (seeking additional Secretary support where necessary) for the Community Resilience project which should include adequate resources to effectively manage and implement the programme. <p>Manager responsible for the action: Head of Country Cluster</p> <p>Due Date: December 2016</p> <p>Priority Rating: High</p>
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<p>B1.2 Planning, monitoring, evaluation and reporting (PMER)</p> <p>The audit reviewed a sample of projects to assess if processes were in place to effectively plan, monitor, evaluate and report on projects. It was noted that:</p> <ul style="list-style-type: none"> - <i>Planning and monitoring:</i> logframes and/or monitoring and evaluation (M&E) plans are increasingly being used, and a detailed M&E plan has been developed for the 2016 operational plan for the Cluster. However, M&E plans have not been developed for all projects and therefore, means of verification have not been established to ensure that indicators can be verified with supporting documentation, such as distribution lists. - <i>Evaluation:</i> A sample of emergency plans of action were reviewed and it was noted that evaluations are included in the planning process. However, not all Secretariat interventions over CHF1million have had an independent evaluation or mid-term assessment (for interventions over twenty-four months) as per the IFRC Framework for
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Evaluation. For the evaluations performed, a management response nor a systematic process to follow up the implementation status of the recommendations had yet been developed.

- *Reporting:* There were limited overdue/outstanding reports reported for the Cluster. However, not all reporting due dates are included in the APPLE database and are therefore not appearing as overdue reports.

In relation to project management training, there were no Cluster staff who had completed the PPP (Project/Programme/Planning) or the M&E Guide e-learning training.

Agreed Action 7:

The Office agreed to:

- a) Establish M&E plans for all appeals, which should include as a means of verification, distribution lists (which are reviewed on an interim basis and are accessible as and when required).
- b) Implement the IFRC Framework for Evaluation including mid-term and independent final evaluations. Facilitate a management response for each evaluation, which should be considered for publication together with the evaluation report. Establish a process to follow-up the implementation status of evaluation recommendations.
- c) Record report due dates into APPLE, and review the outstanding reports on an interim basis to ensure that all reports are prepared and published on a timely basis.
- d) Develop project management skills which may include technical support from a designated PMER function, or training through courses such as the PPP and M&E e-learning training.

Manager responsible for the action: Head of Country Cluster

Due Date: December 2016

Priority Rating: Medium

B2	RESOURCE DEVELOPMENT AND PARTNERSHIP MANAGEMENT
B2.1 Resource development and pledge management	
<p><u>Resource development</u></p> <p>The overall budget versus funding at 2015 year-end indicated satisfactory overall funding coverage. However, for the first three months of 2016, there are some appeals which have been significantly underfunded (for example, three appeals with ~15% funding). An updated funding plan was requested by the auditors but was not able to be provided.</p> <p>There are plans for a CHF110 million three-year programme between 2016-2019 to address food insecurity (see also B1.1). With the low appeal coverage rates for existing food insecurity programmes, there is a risk that the proposed three-year plan may also be significantly underfunded.</p> <p><u>Pledge management</u></p> <p>There are overdue pledges and receivables (some dating from 2013) which have yet to be recovered. This has included amounts outstanding from external partners (~CHF26K), and from Partner National Societies (~CHF105K). The office has been actively following-up the amounts outstanding but this has not yet proven effective.</p>	
<p>Agreed Action 8:</p> <p>The Office agreed to:</p> <ol style="list-style-type: none"> a) Obtain adequate resource/partnership development support to ensure that a resource development plan is established and is regularly monitored to increase the opportunities for receiving acceptable funding coverage. (with particular attention paid to the resilience programme). b) Follow-up the long outstanding pledges with the respective donors, and escalate where necessary with senior management. <p>Manager responsible for the action: Head of Country Cluster</p> <p>Due Date: December 2016</p> <p>Priority Rating: Medium</p>	
B2.3 Partnerships	
<p>There is currently no resource development/partnerships function, and there were no reportable issues noted.</p>	

B3	LOGISTICS, PROCUREMENT AND FLEET
B3.1 Logistics and warehouse management	
<p>The Cluster does not have a logistics and warehouse management function. The warehouse is based in Zimbabwe and logistics and warehouse support is provided from the Regional or Geneva logistics units. There were no reportable issues noted.</p>	
B3.2 Procurement	
<p><u>Cluster office procurement</u></p> <p>The Cluster office does not procure major items. Its procurement is limited to office supplies and equipment, and procurement of services, including the organisation of venues for workshops. A review of a sample of procurement files noted that:</p> <ul style="list-style-type: none"> - Procurement can be performed through working advances to staff. The audit noted procurement of IT equipment such as laptops and cameras for amounts over CHF1K which did not include a comparative bid analysis. - Regular suppliers have been identified for services such as accommodation (hotels), workshops and suppliers. However, there is no database maintained of major suppliers to contact should a request for quotation be initiated. - Service agreements have yet to be established with suppliers who are regularly used. Some of these agreements are in progress (e.g. travel) but not yet finalised. <p><u>National Society procurement</u></p> <p>Procurement of major items for operations is either performed by the respective National Society, or organised through the IFRC global logistics service.</p> <p>In some circumstances, the Cluster will make the payment to a supplier for procurement performed by a National Society. However, it was noted that:</p> <ul style="list-style-type: none"> - this arrangement was not documented in the project agreement with the National Society, which may result in a lack of clarity in relation to the responsibility and accountability for the procurement. - There are other potential risks which require further consideration for example, the VAT status of the National Society, and the verification of the supplier's bank accounts prior to payment being made. These risks have not been identified or mitigated. <p><u>Procurement file testing</u></p> <p>The audit sample tested thirteen procurement transactions (paid by the IFRC with some of the procurement processes being performed by a National Society) over CHF1K and noted that:</p> <ul style="list-style-type: none"> - two files which were over CHF50K were supported by the required IFRC technical approval. However, one procurement was supported with limited documentation on file, with other documents retained on staff's local drives and therefore, were not easily accessible, nor available should the staff member be absent or leave. - five files were without a documented and approved comparative bid analysis. - four files were without a documented goods received note, 	
Agreed Action 9:	
<p>The Office agreed to:</p> <ol style="list-style-type: none"> a) Restrict procurement at the Cluster to authorised persons/functions (e.g. Administration/Logistics), to ensure that the required procurement procedures are followed. b) Tender for, and establish service agreements with regularly used services such as travel. 	

- c) Establish a database of prequalified suppliers who can be included in a request for quotation process.
- d) Assess the risks in relation to IFRC directly paying suppliers for procurement performed by the National Society, and include in the project agreement the roles and responsibilities of the respective parties, should this occur.
- e) Reinforce and communicate the required procurement process with the respective procuring entities, and establish a checklist in relation to the documentation which should be retained in a procurement file.

Manager responsible for the action: Head of Country Cluster

Due Date: December 2016

Priority Rating: High

B3.3 Vehicle management (including fuel and maintenance)

The Cluster office operates three vehicles which are leased through the IFRC vehicle rental programme (VRP). The auditors reviewed the management of these vehicles and noted that:

- A vehicle policy has been developed however, this was developed for the previous Cluster office in Botswana and has not yet been adapted for the move to South Africa.
- There are logbooks retained for each of the vehicles. For the two vehicles located in South Africa, these logbooks were up to date and mileage recorded on Fleetwave. However, it was noted that the mileage for the vehicle in Botswana had not been updated in Fleetwave since February 2016.
- Two of the three vehicles do not have spare keys and both the vehicles based in South Africa have fire extinguishers but do not have first aid kits. First aid kits are included in the vehicle inspection report template, indicating that the Cluster is not performing the inspection report effectively.

Agreed Action 10:

The Office agreed to:

- a) Revise the vehicle policy to contextualise this to the current location, including reviewing the procedures in relation to private usage in relation to home-office. This should be submitted to the Region for approval.
- b) Ensure the monthly logbook records for all vehicles are recorded in Fleetwave.
- c) Perform the vehicle inspection as required by the Fleet Manual to ensure that all vehicles are adequately equipped, including with first aid kits and spare keys.

Manager responsible for the action: Head of Country Cluster

Due Date: December 2016

Priority Rating: Low

B4	SECURITY
B4.1 Security framework The audit reviewed the security management processes. A number of performance improvement recommendations were made which are reported separately to management	
Agreed Action 11: As per B4.1 above. Manager responsible for the action: Head of Country Cluster Due Date: December 2016 Priority Rating: Medium	
B4.2 Security incident reporting The audit noted two security incident reports made in the last year. These incidents have been reviewed by the office and action taken to address these issues. There were no other reportable issues noted.	

SECTION C – OPERATIONS SUPPORT

<p>Good practices</p> <ul style="list-style-type: none"> ✓ 2015 appraisals and 2016 objectives performed for a majority of staff by the due date. ✓ An inventory list is prepared and placed in each room.

C1	FINANCE
C1.1 Financial management and oversight	
<p><u>Month end main files - Coda delegation checklist</u></p> <p>The Cluster's established timeframe for completing the month-end file is between five to ten working days following the end of the month. The last main file available to the auditors was February 2016. It was noted that:</p> <ul style="list-style-type: none"> - In the samples tested, these were not signed by the Head of Country Cluster and one checklist was not performed (September 2015). - The checklist is not performed accurately in relation to some questions. For example, the monthly balance sheet checklist which is ticked as signed, but was not signed by the Finance Officer and Head of Country Cluster. <p><u>Finance analyst's comments and feedback</u></p> <p>A sample of the feedback from the month-end review by the Regional finance analyst was performed to assess if the recommendations were implemented. The most recent feedback was from February 2016, but the Cluster has not yet sent its response as at June 2016 to this feedback¹.</p> <p><u>Outstanding balance sheet items:</u></p> <ul style="list-style-type: none"> - <i>Account 2143 provisions:</i> The provision for termination benefits as at 2015 year-end was a debit amount of CHF19.2K. As at March 2016, the amount was a debit amount of CHF16K. A reconciliation of this account has not yet been performed and this exception was not included in the monthly delegation checklist. - <i>Account 1461 VAT refundable:</i> The VAT refundable as at 2015 year-end was a debit amount of CHF15.6K and as at March 2016, the amount was a debit amount of CHF13.6K. It was noted that the Cluster has been following up on the VAT balance, but this has not yet been paid to the IFRC. 	
<p>Agreed Action 12:</p> <p>The Office agreed to:</p> <ol style="list-style-type: none"> a) Establish a monitoring process to ensure the accurate and the timely completion of the month-end financial checklists. This should include ensuring this is signed by the Finance Officer and Head of Country Cluster, and all exceptions are explained and timely resolved. b) Timely respond to, and implement the recommendations from the Region finance analyst, and establish a process for escalating long outstanding/carry forward issues. c) Review and follow-up outstanding balance sheet items, including key warnings in the balance sheet accounts such as a positive provisions balance. <p>Manager responsible for the action: Head of Country Cluster</p> <p>Due Date: September 2016</p> <p>Priority Rating: Medium</p>	

¹ Only comments from the Part B check was provided by the regional office and there were no comments provided in relation to Part A.

C1.2 Partner working advances and cash transfers

All National Societies within the region are operating on the working advance system and there are no National Societies on cash transfer. A review of the working advances to National Societies noted that:

- Working advances are predominantly in local currencies rather than CHF. This has contributed to foreign exchange differences.
- There are no ceilings established in writing for working advances and balances outstanding of CHF299K and CHF182K for two National Societies.
- The cluster systematically forwards a summary of working advance balances to National Societies to confirm the balances. The audit reviewed a sample of three months and noted that for one month (December 2015), the balance forwarded to one of the National Societies excluded one project.

Agreed Action 13:

The Office agreed to:

- a) Establish project agreements with National Societies in Swiss francs, or obtain the required approval for agreements in local currency.
- b) Establish internal guidelines in relation to working advance ceilings to a National Society.
- c) Reconcile the working advance balances to National Societies, with the confirmation letters sent to National Societies.

Manager responsible for the action: Head of Country Cluster

Due Date: September 2016

Priority Rating: Medium

C1.3 Staff working advances

Working advances are provided to staff who travel on mission, or are required to have advances for operational purposes. A sample of eleven working advances to staff was reviewed and it was noted that:

- Monthly confirmation of balances is performed between the amounts recorded as outstanding in the financial accounts, with the staff member.
- Six working advances were not approved by line managers, and only received finance validation and were not signed by the staff member. In two of the samples tested it was noted that there was inadequate documentation to support the transaction.

Agreed Action 14:

The Office agreed to:

- a) Enforce staff members to sign their working advance settlement, prior to line manager's approval, and validation by finance.
- b) Follow-up the two cases in relation to working advances without adequate documentation, identify the causes, and if required, take steps to recover the funds.

Manager responsible for action: Head of Country Cluster

Due Date: September 2016

Priority Rating: High

C1.4 Bank account management

Bank account signatories

The Cluster office operates seven bank accounts. There is also one bank account (operating on single signatory)

without funds as at end of August 2015 which is in the process of being closed. Five of these seven accounts (including the single signatory bank account), have registered signatories of staff who are no longer working at the office.

Bank correspondence file

It was noted that the bank file included correspondence with the banks, and letters informing the bank of updates to bank signatories. However, there was no consolidated list of current signatories, nor specimen signatures.

Angola bank account

The last bank reconciliation of the Angola bank account was in April 2015. These funds were transferred to another IFRC bank account in August 2015 but the transfer of funds had not been reconciled.

Mozambique bank accounts

Two Mozambique bank accounts that have cash balances, have been dormant for more than nine months and are not being used for operations. These funds have not yet been transferred back to an operating bank account.

Bank reconciliations

Bank reconciliations are performed for all bank accounts except for the Angola bank account (see above). There are a number of reconciling items for the CHF Botswana account. These reconciling items related to transactions which have been recorded in the bank but not in CODA.

Agreed Action 15:

The Office agreed to:

- a) Inform the bank to immediately remove from the authorised signatory list, the existing signatories who are no longer staff members.
- b) Review the bank correspondence file to ensure this is up-to-date. The file should have current information on each bank account of the authorized signatories, including specimen signatures.
- c) Ensure the completeness of bank account reconciliations and obtain supporting documents to justify the differences in the Angola funds transferred back to the IFRC.
- d) Transfer dormant funds to operating bank accounts.
- e) Ensure that budget codes are received prior to making a payment such that all transactions are timely recorded in CODA. Follow-up long outstanding reconciling items to ensure they are cleared on a timely basis.

Manager responsible for the action: Head of Country Cluster

Due Date: September 2016

Priority Rating: High

C1.5 Cash management

Financial charges

For one project in 2015, financial charges amounted to ~12.8% out of total expenditure, and for another project they amounted to ~22.8% of total expenditure. In the three samples tested regarding the allocation of financial charges, there was no supporting documentation located on the file. Further, budget holders are not required to review the financial charges allocated to their project.

Forecasts and cash requests

In 2015, there was a month end closing balance of up to CHF2.6m (March 2015). The closing cash balances for 2015 between March and June 2015 varied between CHF2.6m and CHF1.5m. The March 2015 cash request of CHF2.66m included most of the annual budget for the year and this resulted in significantly more funds than what was required by the office.

Petty cash management

A petty cash policy has been drafted for the Southern Africa Cluster office and is awaiting validation from the Region. During petty cash testing, it was noted that due to the relocation of the office and the inability to hire local staff, there is inadequate segregation of duties. For example, the cashier is currently performing the duties related to custody, record keeping, counting and reconciliation of cash.

Agreed Action 16:

The Office agreed to:

- a) Document the process for allocating financial charges and attach this as supporting documentation to the journal entry. This process should include the review by the respective budget holders.
- b) Establish a monitoring process to ensure that cash requests can be substantiated and are reasonable and realistic for the operations.
- c) Strengthen segregation of duties with available staff. If this is not possible, establish compensating controls which may include regular (e.g. monthly) reviews of cash transactions posted to CODA by another staff member.

Manager responsible for the action: Head of Country Cluster

Due Date: September 2016

Priority Rating: High

C1.6 Finance supporting documentation

A sample of 92 transactions were reviewed to determine if controls were functioning and if there was sufficient documentation to explain and substantiate the transaction. In general, the transactions were booked correctly into the accounts. However, there was inconsistency in relation to the quality of supporting documentation retained. Some of the documentation were available as emails but were not attached to the document file. The following were also noted:

- *Allocation of currency revaluations:* Budget holder approval is not obtained. A calculation sheet is maintained but this is not kept as supporting documentation, and the worksheet was not saved on the shared drive.
- *Distribution lists:* the auditors were informed that distribution lists are available with the National Society. However, these were not part of the supporting documentation (or otherwise indicated where these are located).
- *Missing documentation:* There were a number of missing documentation which was not on the copies of the files retained in the office.
- *Human resources technical validation:* employee benefits are not consistently reviewed by the human resources function.
- *Debtor/Supplier accounts:* Supplier accounts are not used for regular suppliers and payments are directly expensed which impacts the ability to monitor and manage risks in relation to payments.
- *Per diems:* per diems are paid by one IFRC staff member to other IFRC members at events such as overseas workshops, rather than being claimed as a travel expense by the individual. In one sample tested, the list of participants paid a per diem was not signed by the attendees yet the expense was still recorded. In another case, a staff claimed per diems for the whole year at one time at the end of the year. This differs to the IFRC travel related expense procedures.
- *Procurement process:* findings in relation to procurement documentation are noted in B3.2.

Agreed Action 17:

The Office agreed to:

- a) Ensure the completeness and accuracy of supporting documentation to ensure that adequate information is attached to each transaction (or otherwise indicated where these are located). The process should also include ensuring that the required technical validation (e.g. human resources) and approval are obtained.
- b) Perform checks on the completeness of supporting documentation, to ensure that there are no missing documents on file.
- c) Use debtor and suppliers accounts (for regular debtors/suppliers or for larger amounts) to improve monitoring and follow-up of receivables and liabilities.
- d) Inform staff to claim per diems as part of the travel expense claim (as per the IFRC travel related expense procedures), and ensure that this is timely performed (within 30 days).

Manager responsible for the action: Head of Country Cluster

Due Date: September 2016

Priority Rating: Medium

C2	HUMAN RESOURCES
C2.1	Recruitment, job specifications and classifications
	<p>There have not been recent national staff recruitments at the office. The audit reviewed a sample of recruitment documentation of national staff with the findings documented in C2.4 below.</p>
C2.2	Starters, leavers, performance management, and leave management
	<p><u>Starters and leavers</u></p> <p>Upon commencement of employment a briefing schedule is prepared as part of the induction process. In relation to when staff leave the organisation, staff are required to sign an asset clearance form. The audit reviewed a sample of leaver's files and noted that:</p> <ul style="list-style-type: none">- The asset clearance form was not on file for three staff who had left. This was subsequently located but the form was not complete and had not been signed-off by the relevant technical functions.- For staff where accommodation is provided, there was no evidence of an inspection report (with the respective staff member) at the commencement and at the conclusion of the tenure.- Staff who have left the office have not been removed from the signatory list for five bank accounts (see also C1.4). <p><u>Performance appraisals/objectives</u></p> <p>The audit noted that 2015 appraisals and 2016 objectives had been performed for a majority of staff on time which was noted as good practice.</p> <p>In relation to staff training, the audit reviewed the training database for staff and noted that there are opportunities for staff to increase their uptake on trainings. Some of these trainings are compulsory such as the Stay Safe manager's training (for managers), but there are also other trainings such as Project/Programme/Planning, and the Prevention of Corruption training which have not yet been undertaken by concerned staff. The database of training performed by staff was not available to the human resources manager to review what training staff have completed.</p> <p><u>Leave management</u></p> <p>An annual leave summary sheet is kept for each staff member and this is retained in the personnel file. The audit reviewed a sample of the individual leave applications but was not able to reconcile this with the leave balance summary sheet.</p>
	<p>Agreed Action 18:</p> <p>The Office agreed to:</p> <ol style="list-style-type: none">a) Complete asset clearance forms for all staff prior to their departure to ensure that all required tasks have been performed, including removal from bank signatory lists.b) Document accommodation inspection reports when a staff member both commences and ends their accommodation tenure, to ensure that there is an agreed handover.c) Request access (by the human resources function) to the training database to enable monitoring of staff training undertaken.d) Reconcile the leave summary sheet with the leave application forms, and establish a process to ensure that leave balances are up to date and accurate. <p>Manager responsible for the action: Head of Country Cluster</p> <p>Due Date: September 2016</p> <p>Priority Rating: Medium</p>

C2.3 Payroll and remuneration

The payroll for national staff is prepared monthly by the human resources function, validated by finance and subsequently approved by the Head of Country Cluster. The audit noted that:

- In a sample of three payroll files selected, there was one monthly payroll which was not approved.
- Employee benefits are not validated by the human resources function prior to being approved for payment.
- The cost of living allowance (COLA) adjustment was not performed in one year and in the following year, a COLA adjustment was made for two years. Further, there was no documentation in relation to the source of how the COLA adjustment was determined.

Agreed Action 19:

The Office agreed to:

- a) Ensure that all payroll files as well as employee benefits are approved by the appropriate lines of authority prior to payment. For employee benefits, this should include technical validation from the human resources function.
- b) Perform and document the COLA adjustment on an annual basis.

Manager responsible for the action: Head of Country Cluster

Due Date: September 2016

Priority Rating: Medium

C2.4 Personnel files

A sample of eight personnel files were reviewed and it was noted that:

- a summary of documents that should be on file is retained, but this is not used as a checklist. For example, the summary states that a signed Acceptable Use Policy (AUP) should be on file, but there were two staff who did not have a signed AUP in their personnel file.
- roles and responsibilities in relation to the Region and Cluster have not been established to determine which entity retains which documents on the personnel file. This can result in duplication or that neither of the entities retains the document.
- a separate recruitment file is not established and the interview outcomes are filed in the respective personnel file of the selected candidate. Further, the final decision of the recruitment process was not documented in two of the four recruitment files tested.
- A probation period is included in the employment contract however, there is no documented review after the probation period has concluded.

Agreed Action 20:

The Office agreed to request training and guidance from the region in relation to the content to be retained in personnel files. This could include:

- a) Roles and responsibilities with the Regional office in relation to document retention, and the use of the personnel file checklist.
- b) Filing for recruitment, including documenting the final approved decision for the selected candidate.
- c) Documentation in relation to probation reviews.

Manager responsible for the action: Head of Country Cluster

Due Date: September 2016

Priority Rating: Medium

C2.5 Labour Law, staff regulations and contracting

The audit reviewed matters related to staff regulations and contracting. A number of performance improvement recommendations were made which are reported separately to management

Agreed Action 21:

As per C2.5 above.

Manager responsible for the action: Head of Country Cluster

Due Date: September 2016

Priority Rating: Medium

C3	ADMINISTRATION
C3.1 Administrative policies and procedures	
The audit noted the following:	
<ul style="list-style-type: none">- <i>Telephone usage:</i> There is a procedure in place for mobile phone bills to be reviewed and for personal phone calls to be reimbursed. This was implemented in the previous office but has not yet been performed since the move to South Africa.- <i>Insurance:</i> Insurance has been obtained for national staff but this does not cover staff whilst travelling. Further, assets and inventory are yet to be insured, and in the previous office there were items which were stolen but without insurance, a claim could not be made.- <i>Contract management:</i> The contract for the office premises in Botswana concluded on 31 March 2016. The IFRC requested an extension of this lease but there is only email correspondence and no formal agreement signed for this extension. There is a list of contracts maintained by the administration function, but this does not include the contract end dates to ensure timely renewal of contracts.- <i>Housing deposits:</i> deposits are made for staff housing as well as for the office. However, there is no reconciliation between the deposits in the contracts, and the financial records to ensure that these records match.	
C3.2 Other administrative matters	
A filing and archiving system has been established but this is not consistently implemented by all departments. Information is being retained in emails and local drives and not necessarily in shared drives to ensure there is institutional memory. Further, staff interviewed were not aware of the IFRC information classification system and the different security requirements for highly restricted and restricted information.	
Agreed Action 22:	
The Office agreed to:	
<ul style="list-style-type: none">a) Implement the telephone policy to ensure that all phone bills are reviewed monthly and amounts reimbursed to the IFRC as required by the policy.b) Assess the current insurance policies and obtain additional insurance as required.c) Perform regular (e.g. quarterly) reconciliations between the administration records of deposits outstanding, with the financial records.d) Disseminate the IFRC information classification procedures, and obtain a backup of all emails and local drives prior to staff departures.	
Manager responsible for the action: Head of Country Cluster	
Due Date: December 2016	
Priority Rating: Medium	

C4	ASSET AND INVENTORY
<p>C4.1 Asset/inventory management and safeguarding</p> <p><u>Completeness of inventory registers</u></p> <p>The Cluster maintains an overall inventory list for office furniture and equipment. Also, an inventory list is prepared and placed in each room which was noted as good practice. A sample of items in the inventory register was tested and there were no exceptions noted.</p> <p>However, the IT inventory register is not accurate (location, disposal) nor up to date. It was noted that a number of inventory items (broken laptops and other IT equipment) which were disposed or transferred are kept in the IT register. Other examples are one projector in the storeroom which was not registered in the inventory list. Although the auditors were informed that a physical inventory verification is performed, this was not documented.</p> <p><u>Handover of equipment</u></p> <p>When inventory or assets are allocated to staff members, a handover of equipment form is prepared and signed by the respective staff member. A separate form is prepared for each item, which may mean several handover of equipment forms for each employee, and there is no consolidated list of items which have been allocated to a staff member. Further, the handover lists are not used as part of the asset clearance process to ensure that all equipment has been returned when a staff member departs (see also C2.2).</p>	
<p>Agreed Action 23:</p> <p>The Office agreed to the following:</p> <ul style="list-style-type: none">a) Inventory registers are reviewed and documented by the signature of two persons to ensure they are complete, accurate and performed on a timely basis. Document the physical verification of assets.b) Establish a consolidated list of items handed over per staff member, and further, use this consolidated list during the asset clearance process to ensure that all items have been returned. <p>Manager responsible for the action: Head of Country Cluster</p> <p>Due Date: December 2016</p> <p>Priority Rating: Low</p>	

C5	INFORMATION SYSTEMS
C5.1	IT management There is no designated IT function at the office. The Africa Region provides IT support as and when required, including for the initial setup of the office. There were no reportable issues noted in relation to IT management.

PART III ANNEXES

ANNEX 1 - PRIORITY RATINGS

Priority Rating	Priority Rating Description
High priority	The observations could have high material impact upon the achievement of objectives, and the weaknesses identified should be addressed urgently.
Medium priority	The observations could have significant or material impact on the achievement of objectives, and the weaknesses should be addressed promptly.
Low priority	The observations could have some impact on the achievement of objectives. There is scope for improvement by addressing any identified weaknesses promptly.

ANNEX 2 - ABBREVIATIONS

APPLE	appeal and pledge software
AUP	acceptable use policy
CBP	cash based programming
CHF	Swiss francs
IFRC	International Federation of Red Cross and Red Crescent Societies
M&E	monitoring and evaluation
MSR	minimum security requirements
OIAI	Office of Internal Audit and Investigations
PEAR	project expenditure approval request
PMER	planning, monitoring, evaluation and reporting
PNS	partner National Society
PPP	programme/project planning
RD	resource development
VAT	value added tax
VRP	Vehicle rental programme
ZAR	South African rand