

**International Federation of Red Cross and Red Crescent
Societies**

response to the March 2014

Swedish International Development Cooperation Agency

on the commissioned

Review of Internal Control Systems

May 13, 2014

International Federation of Red Cross and Red Crescent Societies response to the Review of the Internal Control System commissioned by the Swedish International Development Cooperation Agency (Sida) (issued 25 March 2014)

Executive Summary

The International Federation of Red Cross and Red Crescent Societies (IFRC) has an established and long standing partnership with Sida and the Swedish Government through the Swedish Red Cross (SRC). This partnership has not only served beneficiaries and affected communities throughout the world but also strengthened the delivery capacities and accountability systems of both the IFRC Secretariat and member National Societies.

The IFRC values this important partnership towards achieving its long term objectives. The IFRC has worked intensively with the Swedish Red Cross over the last two years to meet Sida's increased requirements of results-based planning and reporting in multilateral support, and continued efforts to improve its system have been recognised by Sida.

Following renewed inquiries from Sida, in 2013, about the IFRC's response to corruption allegations related to operations in Pakistan from 2005 to 2009, it was agreed that an internal control system review would be conducted, and in October 2013, Sida commissioned PwC (Stockholm) to review IFRC's internal control systems¹. The findings were issued on March 25, 2014 in a report authored by PwC ("the Report"). The aim of the review was to verify whether IFRC had reliable and relevant routines, resources and competence to manage Sida's contributions. The review was to assess whether the management and financial systems are in order, and was to provide recommendations for improvement. The assignment included a desk-review of the IFRC delegation in Pakistan following-up on a reporting of allegations of fraud and irregularities and of the actions taken. It also included a review of the Sudan Red Cross and Afghanistan Red Crescent to whom Sida provides funding through the Swedish Red Cross.

Although the IFRC felt that it was provided with insufficient time to fact check and provide feedback on the Report in its draft form, it has carefully reviewed the final version, including its recommendations, made available to the IFRC on March 25th 2014.

With regard to financial management systems, PwC (Stockholm) stated in the Report that "the internal control system at the IFRC is well established" and specifically that their overall assessment of the systems within the IFRC is that they are well established, integrated and facilitate reporting and access.

The Report nevertheless provided 95 recommendations. This management response addresses the 53 matters addressed to IFRC. Its scope does not include the 42 more specific recommendations addressed to specific National societies.

¹ It is noted that at the time of Sida's commissioning of PwC (Stockholm), PwC (Switzerland) served in an internal audit assist capacity to the IFRC.

Integrity and accountability matters are of the utmost importance to the IFRC. As a learning organisation, the IFRC continuously works to further enhance its accountability systems and related practices, including in its collaboration with partners. Prior to the review and receiving the report, the IFRC was aware and already taking measures to address issues raised. As was noted in the PwC report, the IFRC is also aware that from time to time, management compliance issues with internal control systems may arise. As such, the IFRC continues to take measures to further improve management compliance of well-established internal control systems.

In response to the Report, the IFRC will undertake work in the following areas:

1. Transparency and accountability
2. Risk Management , Internal Audit and Compliance
3. Funding to National Societies and National Societies systems

Summary of Initiatives

1. Transparency and accountability

The IFRC will continue to strengthen its efforts on transparency and accountability as follows:

- IFRC will strengthen the centralised **reporting mechanism** of allegations concerning its members and ensure that timely action is taken. This will include advising relevant partners, and reporting on progress and activities in a more regular, timely and systematic manner.
- In accordance with IFRC Plan and Budget for 2014-2015, IFRC is investing in implementation of the **fraud and corruption prevention and awareness policy**, including the development of learning modules to efficiently reach volunteers, staff, managers and partners.
- IFRC will articulate a dedicated whistle blower policy with regards to compliment the protections and norms already articulated in the Code of Conduct and Staff Regulations. In addition, Evaluation is underway to determine the most efficient way to **extend independent whistle blowing channels** to external parties.

With regards to transparency, the IFRC already shares detailed operational financial and narrative information on its website, as well as external audit reports and evaluations, as acknowledged by PwC (Stockholm) in the Report. However, IFRC intends to further strengthen its transparency approach as follows:

- **Further information will be made publicly available**, either on the IFRC website or upon request to the Office of the Secretary General. The IFRC reserves the right to limit sharing of some information to safeguard the security of individuals, protect the confidentiality of personal data as well as to protect the integrity and effectiveness of internal control and management processes. However it subscribes to strong principles of transparency to guide these disclosures.
- IFRC is developing a **Transparency Policy** to clarify expectations for all stakeholders.

2. Risk management and internal audit

Auditors have confirmed the strength of the internal audit function. The Report quotes an assessment of the IFRC internal audit concluding a "highest level of reliance". However IFRC aims to continue sustaining efforts to strengthen this function.

- The IFRC's Head of Risk Management and Audit will continue to benefit from direct access to the Audit and Risk Committee and the Chair of the Audit and Risk Committee, enabling **Governance oversight of the Risk Management and Audit** function. In reviewing the Internal Audit Charter, the IFRC will ensure that clarifications needed to the Charter to solidify the full independence of the Audit function are further included.
- The IFRC is taking additional steps to further implement its **Risk Management Framework** in its worldwide operations.

3. Funding to National Societies and National Society systems

While already having well established internal controls, as noted by KPMG, IFRC's external auditors, and confirmed by PWC (Stockholm) in the Report, the IFRC continuously reviews its systems as a learning organisation.

Specifically, the Report presents recommendations on the work with and support to member National Societies. In this regard:

- IFRC will **review standard project and partnership agreements** with implementing partners to ensure they reflect recent additions to policies and procedures, including the Fraud and Corruption Prevention and Control Policy and the central reporting of suspected cases of corruption on a timely basis. Agreements will include clauses reflecting most recent best practices in accountability, transparency and risk management.
- IFRC has begun discussions and specific actions relating to the Sudanese, Afghan and Pakistani National Societies as it relates to the specific issues raised by the report.

Review of Specific Recommendations

As is good practice, the IFRC continuously reviews its approaches and seeks to further enhance the culture of accountability, transparency and risk management, including in its collaboration with partners. The IFRC appreciates the interest of Sida to contribute to this work and build further on IFRC's initiatives taken in recent years to develop and improve its systems.

Where the Report's recommendations represent best practices that are already in place and effectively working on a consistent basis, the Federation is committed to continuing these best practices and monitoring them closely to ensure that they remain relevant and effective. Where issues identified reflect instances of non-compliance with existing policies and procedures rather than the absence of specific policies or procedures IFRC will take necessary actions to identify potential underlying causes and take appropriate corrective action. Finally, where the IFRC found recommendations made for a specific region may warrant improvements on a worldwide level or represent a best practice to be implemented, this has been reflected in the response.

For coherence and efficiency purposes, the IFRC has grouped a number of recommendations. In the instances where there were factual errors included in the Report, the IFRC has modified its response to the recommendation accordingly.

Organisational structure

Contrary to some statements in the Report, heads of department do not report to the Secretary General, apart from the Head of Risk Management and Audit (RM&A). This leaves the direct reports to the Secretary General at ten (four Under-Secretary Generals, five Directors of Zones, and the head of RM&A).

Operational management is decentralised and located in five zones (Americas, Europe, Middle East/North Africa, Africa and Asia Pacific) supported by headquarters in Geneva. Each zone is managed by a director, accountable for the activities in that particular zone carried out through regional or country level staff. Technical coherence is ensured through a matrix-like dotted-line reporting system of field staff to speciality leads in Geneva (e.g. health, water sanitation, shelter, communications, finance, HR, logistics).

In 2013 the IFRC commissioned an external comprehensive review of its decentralised organisational structure. In follow-up to this review some immediate steps were taken. Other more far-reaching recommendations which touch upon the basic functions of the organization and its current organizational architecture await the arrival of the newly appointed Secretary General in August 2014. Key areas which will continue to be discussed and improved include ensuring the most effective management of major operations; improving the matrix way of working between technical/oversight and geography-based responsibilities and capacities; the cost-effectiveness and financial sustainability of the current structure, including the regional/country structures and administrative/support services.

The IFRC will continue to assess the need to establish, maintain or close country and regional offices around the world to meet the ever-changing needs of the National Societies both individually and as a collective. This assessment evaluates a combination of important elements including the priorities of its member National Societies, their willingness and preparedness for support and development, the available resources (funding and expertise), operational and representational needs, and competing priorities around the world (i.e. large disasters).ⁱ

Risk management, Audit, Accountability and Transparency

The IFRC believes that effective risk management and the development of a culture of accountability and transparency are critical and form part of a robust and comprehensive accountability framework that contributes to sound management practices.

As such, IFRC is continually working to improve these key areas within the organisation. In 2007, an Audit and Risk Committee was established; the internal audit capacity has doubled and has been expanded to the field; the risk management framework has been operationalized and risk management advisors have been deployed in large scale or high risk operations among others; a fraud and corruption prevention and control policy has been adopted and a 3rd party anonymous reporting mechanism has been

established. In addition, numerous trainings in risk management and fraud and corruption prevention have been developed and delivered. The IFRC is committed to continuing this proactive approach on accountability matters.

Auditⁱⁱ

The Risk Management and Audit (RM&A) department has grown over the years with the addition of field positions including the establishment of a senior field auditor in the Asia Pacific.

As stated in the Report “the internal audit function is independent and has authority to initiate, carry out and report to the Secretary General and the Audit and Risk Committee on any activities or actions. The RM&A Department reports directly to the Secretary General and the Audit & Risk Committee. The Audit & Risk Committee meet three (3) times a year together with the external auditor...

The IFRC will review the Internal Audit Charter, to assess whether further clarifications are needed to further solidify the full independence of the Internal Audit function.

Risk managementⁱⁱⁱ

The IFRC is currently in the process of reviewing its risk management framework and related documents to ensure that it is more easily accessible to offices worldwide. Complementary material and resources including training material will be developed and made available to the membership and other IFRC offices in all zones. Furthermore, the IFRC is investigating the possibility of allocating additional resources to expand risk management activities within the organisation.

Promotion of Transparency and Accountability^{iv}

IFRC has a long-standing Code of Conduct promoting ethical behavior and is actively promoting a culture of Transparency and Accountability. It has also established a Fraud and Corruption Prevention and Control Policy.

As part of its Corruption Awareness and Prevention activities, IFRC entered into a partnership with Transparency International Norway in May 2013 to develop comprehensive learning material for IFRC management and governance. The materials will be rolled-out to the broader humanitarian community in early 2015.

IFRC will pursue the development of an explicit **Whistleblower Protection Policy** and will revise its existing Fraud and Corruption Prevention and Control Policy to include a wider array of types of corruption and to provide clarification on reporting initiatives and changes. A comprehensive dissemination plan will be developed to highlight the importance of corruption prevention.

The internal reporting and escalation procedures regarding allegations of corruption implicating IFRC staff or resources are set out in the Federation’s Code of Conduct and Staff Regulations. IFRC will ensure that there is a clear internal documentation path surrounding each matter. All employees in Headquarters and in the five zones will be advised of the revised reporting procedure. IFRC senior

management will ensure that all existing employees receive the appropriate briefing, in addition to ensuring that it becomes an integral part of any new employee's orientation.

IFRC will also strengthen the process by establishing a more **robust and centralised system of reporting** (including relevant tracking information) to Headquarters in Geneva. A list of reported cases, and associated status, will be communicated to the Governing Board and Audit and Risk Committee at least on a yearly basis. In addition, IFRC will clarify **communication protocols with affected donors** in its disclosure/transparency policy currently under development.

Legal^v

IFRC agrees that the conclusion of **Legal Status Agreements** is an important element of a well-functioning and accountable IFRC in-country presence. IFRC will continue its efforts to establish appropriate Legal Status Agreements in countries in which it operates or could establish a presence in the future. However it is worth noting that the granting of such agreements is at the sole discretion of the Government of each sovereign country and requires the agreement of the respective National Society. IFRC will continue to concentrate its legal and humanitarian diplomacy efforts to secure acceptable legal status agreement in countries of highest priority.

In order to mitigate its risks, IFRC will continue to explore available legal options when securing an appropriate legal status is proving challenging, including working under an INGO status, or under the umbrella of the host National Society's legal status and limiting its in-country legal activities (working through regional or zonal presences). In these contexts, IFRC will remain mindful of the short- and long-term risks. Should IFRC operate under the host National Society's legal status, it will ensure that there is a comprehensive agreement in place to protect its interests and those of its stakeholders.

IFRC will continue to review its existing **agreements with stakeholders**, including Sida and the Swedish Red Cross. It will seek to clarify and document expectations and to do so in the most efficient way possible, such as minimising the different number of agreements with similar partners/stakeholders.

Programme management – finance and narrative reporting^{vi}

The IFRC works to ensure that its policies and procedures are up-to-date. In doing so, it takes a **risk-based approach** when reviewing its financial policies and procedures. It prioritises the areas of higher risk, including areas identified by internal and external audits.

In the meantime, as most recommendations related to management compliance issues with existing policies and procedures, IFRC will implement measures to further enhance management **compliance**, including a more stringent application of the transfer of working advances to National Societies who have not cleared or reported on their working advances in a timely manner. Support to National Society capacity strengthening relating to financial and narrative reporting will continue, with an appropriate combination of support and reprimand type measures. IFRC will continue to comply with **donor reporting requirements**. IFRC will have a specific conversation with the Swedish Red Cross on the level of detail required in financial reporting for funds involving Sida as raised by PwC Stockholm and document specific requirements in writing. An agreement was reached with Sida in 2012 in relation to the archiving timeframe procedure.

In response to the compliance recommendations for the Africa Zone, the zone office has allocated resources for Arabic translation and will include Arabic **language skills** as one of the requirements/asset qualifications in future recruitment. The Zone Finance Unit will work with regional office and country office finance staff to ensure that established policies and procedures are adhered to more consistently, including request for payment approvals, expenditure approvals, clearance of employee working advances and compliance with agreements.

Logistics^{vii}

In January 2013, following a thorough review of systems and processes, the IFRC began the implementation, of an ambitious project of a new disaster management delivery system to replace some of its existing systems. The complete project is estimated to cost over 6 million CHF over five years. To adjust to funding and resource availability, an incremental implementation approach has been adopted whereas core modules are built and topped-up through different iterations.

The first phase prioritized order management, procurement and transport tracking. Beneficiary registration and distribution modules were also piloted in the field last year. The completion of core modules ready for roll out to zonal level is expected by end of 2014. When the system is tested and working to the set target, it will be rolled out to IFRC country level offices.

IFRC logistics and procurement processes are comprehensive and when fully respected, ensure a strong control environment. In the future, National Societies receiving funds from IFRC through cash and working advance will be validated by the Global Logistics Service by **an assessment of capacity to perform procurement activities**. In 2012, the Global Logistics Service introduced a systematic approach to National Society capacity building utilising the National Society Logistics Capacity Enhancement tool and process. The tool and process also reinforces National Society procurement capacity.

National Society organisational development^{viii}

The PWC Report recommends that an assessment be conducted on the IFRC's efforts towards capacity building of National Societies although no factual findings back this recommendation nor was a review of IFRC's capacity building work part of the scope of the PWC review.

This being said, IFRC views organisational development support to its National Societies as one of its prime functions. The IFRC has a diverse range of activities and initiatives supporting this objective, including the OCAC organizational capacity assessment and certification process; the "bridging the digital divide" project; leadership training programmes and the learning platform.

A National Society development framework was just adopted at the last General Assembly. The IFRC is actively working to ensure that its capacity building support to National Societies focusing on long term development needs is fully owned by the National Society. Also, that it is complimented and not harmed by programmes and operations that not only seek to meet the immediate emergency needs of the country and particularly of the most vulnerable but also to support the institutional growth of the National Society.

It should be acknowledged that building capacity of National Societies is not only an imperative for the IFRC but also a critical investment into the capacity of civil society organisations leading disaster risk

reduction in country at risk. Alas, this effort to build resilient institutions to ultimately build national resilience to disaster and conflicts has not yet received enough attention from the donor community.

Recommendations for National Societies (Afghanistan, Pakistan and Sudan)

Recommendations that relate directly to specific actions by individual National Societies have not been addressed in detail in this response. The IFRC has shared the recommendations with the respective National Societies and has explained the importance of implementing a number of best practices. The IFRC will monitor progress on their implementation.

Conclusion

IFRC is committed to ensuring that it utilises the resources with which it is entrusted in the most effective and efficient manner to meet the changing needs and expectations of its stakeholders, including donors, partners, member National Societies and beneficiaries. It will seek to find, and to maintain, the appropriate balance of allocated resources for safeguarding of resources and programme delivery.

The implementation of these recommendations will be followed-up by management and supported by the Risk Management and Audit department in conjunction with its regular follow-up of internal and external audit recommendations to ensure that key recommendations are implemented on a timely basis.

In its continued commitments to accountability and transparency and in conjunction with actions being taken to address some of the concerns raised in the report, IFRC is also finalising an Accountability and Transparency Plan of Action. This Plan will be a living document that will be updated regularly and will be implemented within the broader accountability framework that as a result of a 2013 General Assembly decision is currently being operationalized.

PwC Stockholm report recommendations

ⁱ In response to recommendations from section 7.1.1:

- *An overview and assessment is carried out in regards to the organizational structure of IFRC, taking into account the different evaluation and review reports carried out by external consultants, in order to ensure a clear, transparent and an organization adapted to its purpose.*
- *Based on the assessment of the organizational structure mentioned above, clarification be provided to ensure clear and effective reporting lines which will also ensure transparency and accountability.*

ⁱⁱ In response to recommendations from sections 7.1.2 and 7.2.6:

- *The Internal Audit Charter be reviewed and updated in order to facilitate transparency and clear reporting lines for relevant stakeholders, including donors.*
- *The work carried out in relation to internal audit is elevated in status and that its independence is ensured.*
- *The senior field auditor takes a more active part in the everyday activities at the Zone office and in the region, in order to increase knowledge sharing and identify areas for further development (M).*

ⁱⁱⁱ In response to recommendations from sections 7.1.2, 7.3.7 and 7.5.7 :

- *A structured and target-oriented process be developed to implement risk management at all levels within the organization.*
- *The risk registers are finalized and an action plan has been developed which includes all departments in Zone, Region and Country offices.*
- *A risk register for the CO and action plan be developed, see further section 7.3.7.*

^{iv} In response to recommendations from sections 7.1.2, 7.2.7, 7.2.8, 7.3.7 and 8.5.1:

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- *That appropriate resources be allocated for the development and further implementation of the anti-corruption policy and for the work within the organization in this area.*
 - *That reporting to the Board of Directors includes a register of identified suspicions, irregularities and fraud, as well as actions taken, time plan and responsibilities.*
 - *IFRC develop and clarify the reporting lines in regards to suspicions, irregularities and fraud, in order to be able to immediately inform donors and relevant stakeholders at an early stage.*
 - *Resources for risk management and anti-corruption are made available in order to strengthen the organization and facilitate prevention.*
 - *The documentation and reporting of irregularities and suspicions be developed in a coherent way including action plans.*
 - *The IFRC and the Zone offices establish proper routines for documenting and reporting any cases of suspicions of irregularities and fraud, in order to promptly take appropriate actions.*
 - *Training on anti-corruption and fraud forms part of the training of new employees.*
 - *IFRC establish and implement clear guidelines as to whom to report to when suspicions of irregularities arise.*
 - *Documentation regarding investigations of fraud and corruption be correctly filed.*
 - *Ensure that the Pakistan National Society implements the policy for anticorruption and that the staff is made aware of the policies and prevention measures.*
 - *Ensure the establishment of resources for anti-corruption work and that this is included in the budget and allocated resources.*

^v In response to recommendations from sections 7.1.4, 7.1.5, 7.2.2, 7.2.5, 7.5.1, 8.5.1:

- *IFRC ensures that Legal Status Agreements are signed in countries where considerable activities are carried out, in order to access full legal status and ability to act in that specific country.*
- *Agreements between IFRC and SRC/Sida are made more clear and specific as regards expectations in terms of cooperation, reporting and the dissemination of information.*
- *The Legal Department, together with the different levels of the organization, works toward establishing Legal Status agreements in all major countries in which the Federation has operational activities.*
- *The AP Zone pursues and ensures that Legal Status agreements are in place for the remaining countries in the region (Pakistan, Myanmar and Philippines), in order to be able to carry out legal acts in that specific country.*
- *As regards procurement processes in countries where no Legal Status agreements have been signed, specific agreements need to be in place between the Federation and the National Society in order to ensure compliance with rules and regulations related to IFRC funds.*
- *AP Zone ensures that Legal Status Agreements are in place for the countries in the region, in order to strengthen the procurement and logistics routines.*
- *IFRC make sure to pursue a Legal Status Agreement for Sudan, in order to ensure legal status in relation to procurements and logistics.*
- *In order to further control the procurement processes and for IFRC to be able to carry out legal acts in the country, IFRC should further pursue the establishment of a Status Legal Agreement.*
- *In order to further control the process and compliance with procurement rules and regulations, IFRC should further pursue the establishment of Status Legal Agreement.*

^{vi} In response to recommendations from sections 7.1.3, 7.2.3, 7.3.2, 7.3.8, 7.4.3, 7.4.4, 7.5.2, 7.5.3, 7.5.4 and 7.5.8:

- *The Finance Department ensure that procedural and routine documents are regularly updated.*
- *IFRC confirm with SRC/Sida that the rules for archiving bookkeeping material and documentation apply to seven (7) years, and not then (10) years as stipulated by Sida.*
- *ZO ensure good internal control regarding the review and validation of the original supporting documents in the Arabic language.*
- *IFRC review the procedure for Request of Payment – transfer to Delegation in order to strengthen the internal control to ensure that the requested funds are used in the intended project.*

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- *SRC require reporting specified according sub-sectors to ensure that funds are spent in accordance with the plan.*
 - *RO ensure that requests for payment are signed by all relevant signatories prior to payment being made.*
 - *Regulations regarding the approval of employees own expenses be implemented.*
 - *IFRC strengthen the procedures for the monitoring and control of WANS in order to ensure that agreements are complied with in terms of reporting.*
 - *Regulations concerning the clearance of working advances to employee/delegates be adhered to.*
 - *The CO makes sure that NS reports the WA as stipulated in the Letter of Agreement prior to any new transfer of funds taking place.*
 - *IFRC ensures COs independence from NS and the staff's qualifications as the only review of documents in Arabic is made by the CO.*
 - *The CO makes sure that NS submits the reports and supporting documents on time.*
 - *Sida and SRC review the possibility or signing the yearly agreement at an earlier stage in order to facilitate the disbursements to NS.*
 - *The disbursement of funds takes place according to the agreement.*
 - *Reporting take place according to the Letter of Agreement.*
 - *Narrative and financial reporting is quality assured before submission.*

vii In response to recommendations from sections 7.1.4, 7.4.5, 7.5.5 and 8.5.1:

- *IFRC ensure that the new HLS Logistics System be implemented and accessible to all IFRC offices.*
- *The implementation of the new upgraded logistics system is followed-up and regularly assessed, in order to ensure that all IFRC offices handling procurements and logistics are incorporated in the system.*
- *IFRC ensures that the conclusion on the CBA is clearly indicated in order to guarantee compliance with rules and regulations.*
- *IFRC ensures that NS follow the IFRC's procurement policy as regards purchases funded through IFRC.*
- *The supply of travel be subject to the procurement process according to IFRC's policy.*
- *In order to ensure compliance with IFRC rules and regulations in regards to procurements and logistics, a support system needs to be implemented in the entire chain of the IFRC. The new HLS support system should include IFRC Regional and Country offices and should closely support National Societies.*

viii In response to recommendations from sections 7.1.1 and 7.2.9:

- *An assessment be carried out in regards to the mandate of the Federation in terms of building capacity in the National Societies and the setting up of an organization that enabling and facilitating resources and capacity support to reach the National Societies in an effective and transparent manner.*
- *The IFRC ensures that in order to strengthen and allocate further funding, a self-assessment be carried out based on the internal tool or other relevant tools and methods.*
- *The IFRC assess the additional need for resources and funding in order to give support to National Societies in the follow-up phase of the OCAC process and in the improvement of the National Societies.*
- *The IFRC ensures that there is a clear plan for follow-up and actions taken based on the assessment and on the identified roles and responsibilities.*