Red Cross (IFRC)

Review of the internal control system

PwC

25 March 2014
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1 Executive summary

Sida has awarded PwC the assignment to undertake a review of the internal control system at the Red Cross (IFRC – International Federation of Red Cross and Red Crescent Societies). Sida undertakes this review as a part of following-up on Swedish Red Cross (SRC) funds, which are channelled through the IFRC, in order to ensure that these funds are handled in accordance with the requirements in the agreements and that the funds are used for the intended purposes. The main part of the assignment has been carried out at offices at all levels of the IFRC (Geneva, Nairobi, Khartoum, Kuala Lumpur and Kabul), as well as at the National Societies in Khartoum and Kabul.

The aim of the review is to verify whether IFRC has reliable and relevant routines, resources and competence in order to be able to implement Sida’s contributions. The review will assess whether the management and financial systems are in order, and shall provide recommendations for improvement. The assignment also includes a desk-study of the IFRC delegation in Pakistan following-up on a reporting of allegations of fraud and irregularities and of the actions taken.

Below, we have summarized our assessments and observations on an overall level, based on the areas of focus in the Terms of Reference. For further descriptions and recommendations, we refer to the full report.

Organization

The International Red Cross and Red Crescent Movement is the world’s largest humanitarian network. The Movement is made up of nearly 100 million members, volunteers and supporters in 189 National Societies. It has three main components comprising of The International Committee of the Red Cross (ICRC), The International Federation of Red Cross and Red Crescent Societies (IFRC) and 189 members Red Cross and Red Crescent Societies. The main office of the IFRC is located in Geneva. The IFRC Secretariat comprises of the head office and the field delegations around the world. There are five Zone offices located in Europe (Budapest), Africa (Nairobi), Americas (Panama), Asia Pacific (Kuala Lumpur), and Middle East-North Africa (Beirut). There are fourteen (14) permanent regional offices around the world, and more than 60 country delegations including representative offices in New York (to the United Nations), Addis Ababa (to the African Union) and Brussels (to the European Union). It is obvious that the organizational structure of the Movement and the Federation is extensive and requires a distinct and transparent organizational set-up. A decentralization of the regional and country desks to the Zones was implemented in 2007.

During our review based on the Terms of Reference and the areas of internal control, we noted that the issue of transparency needs to be improved and clarified in regards to reporting lines, agreements and disclosure policies. The Federation is a large and complex organization with many layers of decision-making from Head-office, Zone office, Regional office and Country office. We note that Country offices are established where the National Society needs capacity support for a limited time in order to strengthen the National Society, however we see that many Country offices have been established for a long time (e.g. Country office in Khartoum).
We also note that the organizational set-up in the Federation in regards to reporting is that all departments at the head-quarters and the Directors of Zones are reporting directly to the Secretary General. Our assessment is that this constitutes a risk and might hinder transparency and accountability. See further paragraph 7.1 under observations and recommendations in the report.

During the last two years, there has been a greater focus on risk management and anti-corruption work. An “Accountability Framework” was presented at the General Assembly in Sidney in November 2013, and there are indications of further work to be carried out with a “Disclosure Policy”, in terms of transparency and accountability. However, we note that the anti-corruption policy was launched in 2011 and there are still several areas for improvement in regards to implementing the policy within the organization in terms of anti-corruption work, establishing and ensuring compliance with routines and procedures, as well as clarifying dissemination of information to donors and stakeholders. See further paragraph 7.1.2 under observations and recommendations in the report.

**Internal control system**

The internal control system at the IFRC is well established. The Federation has produced a large number of procedures and routine documentation for the organization. All regulations and procedures documents must be complied with by the Federation offices. However, we noted during our review that several documents has not been revised or updated for a number of years, which we recommend is being done on a continuous basis.

IFRC regulations and procedures documentation are not an imperative for National Societies as being recipients of funding, hence they are able to set up their own systems for procedures and routines. However, according to the Cooperation Agreement, the National Societies are obliged to implement systems and routines to ensure efficient use of funds and implementation of activities. We note that there is no specific follow-up by IFRC on compliance with rules and regulations at National Societies level, which is mainly undertaken by local audits. We also note that the follow-up on recommendations made in local audit reports is not carried out in a systematic manner.

In the “Strategy 2020”, one of the activities to enable the overall objectives is to build strong National Red Cross and Red Crescent Societies. In order to facilitate these activities, a specific self-assessment tool has been produced called OCAC (Organizational Capacity Assessment and Certification). This assessment tool was distributed within the organization during 2011 and is now in the process of being implemented. Before the OCAC tool was introduced, there were other assessment tools and formats being implemented, however these tools have since then been developed and made coherent within the movement. In regards to building capacity and support in the National Societies, it has been highlighted that there is lack of resources to carry out activities for capacity support, for which it is also difficult for the Federation to obtain support.

**Financial management systems**

Our overall assessment of the systems within the IFRC is that the systems are well established, integrated and facilitate reporting and access in several dimensions. It is noted that the IT-systems are regularly reviewed by the external auditors in order to assess appropriate systems. However, in regards to the logistics and procurement system (HLS), we note that this is only implemented and used at headquarters and
Zone offices. The system is not implemented at the Regional and Country offices, which indicates a weakness and risk in connection with procurements and logistics administrated and handled beyond the Zone office level. We have been informed that a new upgraded logistics system will be implemented, which will also include the Regional and Country offices.

Accounting and handling of funds

The accounting software used within IFRC is called CODA. CODA is a web-enabled transactional system that stores all financial information. IFRC Finance Department has established rules for account codes verification which are applied with the input of the documents in order to provide a certain level of control and to prevent incorrect usage of accounts. Until 2010, IFRC had multiple reporting systems in place which made it possible for National Societies to access information in CODA. In 2010, IFRC closed the DMR (Donor Monitoring Reporting) as it was producing misleading project reports because of the changes in accounting practices related to IFRS, which allowed IFRC to concentrate report development on a single platform and close direct access to the general ledger for non-IFRC parties. Our assessment is that the CODA system is well implemented and fully integrated with other supporting systems and platforms. All offices within the Federation have access to the accounting system and the accounting system serves as input to the output reporting generator Business Objects and the reports are tailored to ensure transparency and accountability.

In regards to disbursement routines, we have several observations as regards both IFRC offices and National Societies. We note that, for instance, in some cases certain individuals authorize their own costs and advances. In regards to payment within the multilateral cooperation which takes place via the Federation these are executed either via the Working Advance (WA) or Cash Transfer System. WA is used when IFRC does not consider the capacity of the NS to be sufficiently strong. These payments can refer to both long-term support and emergency funds. We note that regulations for Working Advance National Society (WANS) are not complied with in full due to unsettled WANS. Working Advances to delegates and local staff are reported, to a large degree, in the same month in which they are paid out. However, there is an exception when new advances are added and not reported according to the time schedule stipulated in the regulations. Finance sends quarterly statements to personnel who have outstanding balances. See further paragraph 6.4 in the report for a description of working advance versus cash transfers.

For National Society in Khartoum, Sudan, we note that the financial system, bookkeeping and follow up show weaknesses and it is difficult to assess the completeness of the bookkeeping. Due to this weakness, NS is under the Working Advance system. However, we note that a new accounting software was upgraded recently, which would facilitate improved accounting procedures and follow-up. The system is being implemented together with new routines and the training of personnel. HQ and all of the branches will be able, when the system is fully implemented, to use the same system. NS will, then, be able to produce consolidated accounts, which is not possible today. At the time of our visit, the bookkeeping in the accounting system was not up to date, rather, the registration continued in Excel and was reported in the accounting system after registration.

In regards to the National Society in Kabul, Afghanistan, we note that the organization has a well-established organizational structure for the management and operation of the daily affairs of the organization and implemented policies and procedures. However, we also note areas as regards to internal control where there is room for improvement. It is noted that the bank accounts are single signatories only
and, in addition, the new accounting system needs to be further implemented and documentation and information management needs improvements in order to strengthen the internal control.

**Reporting and follow-up**

Monitoring and reporting is supported by a number of web-based systems, such as for the finance systems: CODA (accounting), Apple (software developed by IFRC), SAP (Human Resources), HLS (Logistics) and Business Objects (Reporting). Through these systems, the IFRC undertakes a global overview of income, expenditure, as well as legal commitments (staff contracts, procurement in progress, etc.) at all levels of the organization. In 2012, a new budget system, FedBudget, was finalized and introduced at all levels of the organization. FedBudget is linked directly with CODA and does not require any further input of data.

Several reports are produced for monitoring and follow-up. Monthly financial and narrative reports are submitted by Country delegations and Regional offices to the Zone office. Quarterly financial reports are compiled at the Zone office and submitted to Director of Zone and IFRC Geneva. The Budget and Analysis Unit of the Geneva Finance Department reports on the IFRC Secretariat overall financial performance every month, and provides advice about corrective measures as required. The Federation publishes, on a monthly basis, data including global key performance indicators for Finance and Reporting. This is published on the Senior Management Dash Board on the International Federations intranet, FedNet, for increased transparency and awareness.

Reporting to donors is produced on request if required, or donors receive the reports through access to FedNet and on the public website.

We have made observations in regards the reporting between National Society and Country Offices. In our sample testing we note a lack of compliance with agreements between Country Office and National Society regarding the required reporting before the next disbursement in regards to working advance. See further chapter 7 under observations and recommendations in the report.

In regards to evaluation and monitoring, the Planning and Evaluation Department have the responsibility of setting up structures and the framework for evaluation of activities within the Federation. The framework is to be applied to all evaluation activities by, or for, the IFRC Secretariat. Evaluations can be commissioned by a person or department in accordance with the evaluation standards and practices presented in this framework. This typically involves the programme senior management, or for evaluations involving multiple programme areas, there may be a requirement of the involvement of the Secretariat senior management. All executed evaluation reports are available on the IFRC external webpage.

**Audit and risk management**

Regulations and procedures in regards to the audit within the IFRC are handled by the Risk Management & Audit Department (RM&A). There is also an Audit and Risk Committee established as a sub-committee of the Finance Commission. However, the Audit and Risk Committee is not directly established under the Constitution.

The Audit & Risk Committee reports to the Finance Commission on the activities, findings and the recommendations of the Audit and Risk Committee, Finance Commission include a report on the activities of the Audit and Risk Committee to the Governing Board and General Assembly. Furthermore, the chair of the Audit and Risk
Committee provides verbal reporting to the Governing Board at each ordinary meeting and has a standing invitation to attend all Governing Board Meetings. In addition the Chair of the Audit & Risk Committee meets with the President to report on activities of the ARC.

The IFRC Internal Audit Process is regulated in the IFRC Internal Audit Charter (2009), which prescribes the mandate, authority, duties and reporting of the Risk Management and Audit Department (RM&A). With a right of access to the Federation Finance Commission and the Audit and Risk Committee, RM&A reports directly to the Secretary General as an independent function of the International Federation Secretariat. We note that the Internal Audit Charter presents a specific reporting structure which limits the transparency within the organization. Consequently, there are unclear reporting lines as regards to RM&A, as well as regards the General Secretary. It is important that the Internal audit (RM&A) works independently from the General Secretary in order to fulfil its obligations and independence.

We also note that the IFRC needs to further develop its organization in regards to implementing the anti-corruption policy and needs to develop tools and reporting in relation to identified suspicions and investigations. It is unclear whether sufficient funds has been budgeted for the activities carried out in relation to anti-corruption work, which may limit the implementation and the additional work that needs to be followed-up and reported upon.

**Procurement and logistics**

Routines and regulations as regards Procurement are stipulated in the Procurement Manual. The Federation also refers to its external web-site, Procurement Portal. Procurement is understood to cover all actions related to the acquisition of goods, services, and capital items (including renting of equipment or facilities), from needs identification to supplier contract management. The International Federation is understood to include all secretariat offices (Geneva and field offices), regardless of location.

We note some areas which need to be followed-up and further developed. We note that there is a weakness in ensuring that procedures in regards to procurement and logistics are adhered to. We also note that the organization is not completely adhering to the structure that should be in place, for instance that the Zone offices are handling the procurement. We note that the regional office in Nairobi is handling procurement and logistics, however this circumstance has also been identified by the head-quarters and will be attended to.

We note, in regards to countries were no Legal Status agreement has been signed, that the Secretariat lacks the explicit permission to carry out legal acts in the Country and the legal enforceability of the IFRC acts and the applicable rules continue to comprise a risk. A Legal Status agreement is the explicit expression by a Government of their recognition of IFRC “international legal personality” and its corresponding ability to carry out legal acts in that Country and the terms and conditions under which IFRC can carry out such legal acts (for example, tax exemption, custom duty exemption, immunity from national legal processes – and inviolability of staff and property). In countries were procurements are handled by the National Society, this implies a risk in terms of non-compliance with rules and regulations according to IFRC, and if no Legal Status agreement has been signed, there is also a risk of not being able to carry out legal acts, or securing the legal ownership of goods.
We also note in regards to the logistics and procurement system (HLS), that this is only implemented and used at headquarters and Zone offices. The system is not implemented at the Regional and Country offices, which constitutes a weakness in regards to internal control and compliance with rules and regulations.

**Anti-corruption and irregularities**

The Fraud and Corruption Prevention and Control Policy was implemented in 2012. Before this policy was implemented the Code of Conduct was previously the main document referring to fraud and other related subjects.

The anti-corruption and prevention policy applies to the Federation, however, it is stressed that also members (National Societies) within the Federation should adhere to the anti-corruption policy together with the Code of Conduct and the Integrity Policy. We note that the Federation has focused its work more intensively within the area of anti-corruption during the last two years, still, we see that there are several areas for further improvement. We are informed that there is an annual process of attestation whereby all Senior Managers attest to any cases of fraud or irregularity, related party transactions and/or contingent liabilities. This is part of the internal control processes of the IFRC and forms part of the annual audit update. However, we have not been presented with any reporting of identified suspicions or irregularities within the Federation, with attached action plans and follow-up. There is no clear reporting line in regards the reporting of irregularities or fraud within the organization, as well as when to report to donors and other stakeholders. The majorities of the reported cases regarding deviations are made to the Human Resources and seem to refer mainly to staff matters. It is unclear to what extent reported cases refer to other areas indicating irregularities and fraud. There is no register presented with outstanding cases of suspicions and action plans. There is also a lack of routines to follow-up on compliance with rules and regulations in regards to National Societies' funds transferred via the Federation.

We note that there are different levels within the Federation as to how far the implementation has been carried out in regards to anti-corruption and risk management. In some cases, a risk register has not yet been completed and this includes only the financial aspects.

**IFRC delegation Pakistan (desk-study)**

Based on the reports and the information that we have been able to study and to which we have had access, there has been a chain of incidents and measures undertaken in regards to the IFRC Pakistan delegation. We note in the different reports that forms the basis for this desk-study that the first allegations in regards to the procurement process in Pakistan were highlighted during 2009. It has also been noted in the reports that during the period of 2006 – 2009 (three years) there were several disasters in the region and it has been indicated that there were particular problems in regards to the procurement of goods and services.

We note that it is crucial that the respective leadership groups within the National Societies implement and make staff and the organization aware of the anti-corruption policy. The implementation of the policy is, though, a weak link within the movement and for the Pakistan National Society it has been a challenge. We note that the IFRC Country Office in Pakistan does not have a Legal Status agreement with the government. This implies that all activities and formalities are carried out under the responsibility of the Pakistan National Society, and there is less control in terms of
local procurements. The process vis-à-vis the government has been ongoing for +20 years.

We note, based on the reports and action plans that forms the basis for this desk-study that the Pakistan National Society seems to have improved its organization in regards to implemented routines and regulations. The National Society implements projects and programs, and the IFRC country office is responsible towards the donors. MoU has been signed between the IFRC and the National Society. However, we note that, in spite of Procurement Officer be hired, this had not taken place as at the time of our review. Furthermore, capacity support needs to be increased to branches of the National Societies. We note that there are a number of procedures documents but, there is the need of improvements in regards to follow-up on compliance.

Improved routines have been implemented and as from 2010, procurements in Pakistan are undertaken through the IFRC Country Office, as well as via the National Society, with the support of the IFRC. Medicine and food is handled via global framework agreements. When the National Society procures goods, this has to be carried out through IFRC and Geneva. The local Committee of Contract (CoC) comprises of representatives from both the National Society and the IFRC country office. Suppliers have to be registered in the IFRC register. Procurements in excess of CHF 50,000 are subject to secondary review to ensure compliance with Procurement Manual.

In regard to the questions referred to in the Terms of Reference, based on this desk-study we are not in the position to establish whether or not Sida funds have been used for the intended purposes for the periods referred to in the reports, which have been a part of this desk-study. However, based on the review of the reports and follow-up on actions taken, we have been able to assess the follow-up on actions taken and note that several actions have been implemented in response to the recommendations in the reports. However, we also note that there are still outstanding recommendations and actions to be taken, which need further attention in order to strengthen the internal control in the procurement process related to the Pakistan Delegation. See further chapter 8 in the report for further details.
2 Background

2.1 Assignment

Sida has awarded PwC the assignment to undertake a review of the internal control system at the Red Cross (IFRC – International Federation of Red Cross and Red Crescent Societies). Sida will undertake this review as a part of following-up on all Swedish Red Cross (SRC) funds, which are channelled through the IFRC, to ensure that these are handled in accordance with the requirements in the agreements and that they are used for intended purposes. The assignment shall take place in Sweden initially, but the main part of the assignment will be carried out in Afghanistan and in Sudan (National Societies), at IFRC zone offices in Kuala Lumpur and Nairobi and at IFRC headquarters in Geneva.

The aim of the review is to verify whether IFRC has reliable and relevant routines, resources and competence in order to be able to implement Sida’s contributions. The review shall inform the donor as to whether the management and financial systems are in order and shall provide recommendations for improvement.

We have conducted our review in accordance with Terms of Reference for this assignment attached in Appendix 1.

2.2 Approach and methodology

2.2.1 Method for the evaluation of financial governance

Our approach and view of the system regarding financial governance and evaluation are based on the so-called COSO model (The Committee of the Sponsoring Organization of the Treadway Committee), which is an internationally well-tested and functioning framework for work within the areas of internal governance and control. Based on experience, the simplicity of the model provides the possibility; in the short term, to apply common viewpoints and terms within an area that can be considered difficult to define. In short, the COSO model can be said to be based on a system facilitating maintenance control procedures with the purpose of achieving good governance over operations including the reliable reporting of the results of the operations, as well as compliance with laws, ordinances, internal regulations and other guidelines and directives.

The application of the model can be described as defining the activities within risk assessment existing within an organization, based on a given control environment. Based on the organization’s risk assessment, the existing structure for internal governance and control is mapped in an appropriate manner. Finally, procedures for communication and information and the supervision exercised by the management body are assessed.

The model shows how the components work together with regards to financial management and the accounting of the respective activities.
Below is an account of the fundamental activities we have executed within significant areas of the audit.

*Control environment* verifies the conditions available for appropriate controls to be able to be applied.

*Risk assessment* includes IFRC’s system and procedures for the assessment of risks and threats in the operations.

*Control activity* is a verification of the controls applied by IFRC in order to prevent the occurrence of errors and in order to discover errors that have occurred; for example, the monthly reconciliation of bank accounts.

*Information* is an assessment of whether IFRC’s systems and procedures capture, supply, and relay relevant information on what is taking place within the entire organization and if such information is supplied in an appropriate manner.

*Monitoring* is a verification of the supervisory functions and follow-up efforts IFRC undertakes in order to satisfy itself that the operations are administrated efficiently.

The great advantage of the model is that it not only focuses on the risk of error in the accounting, but it also includes a review of decisions and procedures for control over co-operating partners, new projects, and the overall outlook of the organization, as well as of the organization of internal control.

### 2.2.2 Confirmation of observations

A draft report has been made available for fact checking and comments to IFRC and Sida with the purpose of ensuring that we have correctly understood and interpreted the systems and routines.

### 2.2.3 Structure of the report

The structure of the report regarding the chapter on our observations and recommendations (Chapter 7), presents, for each section, a short overview on the present routines for each area, the information and documentation we have reviewed (according to Terms of Reference), what we have noted, and finally our recommendations. We have only reported on dissenting observations. If no dissenting
observations have been made in relation to that which has been reviewed, no comments are provided.

The designations H (High), M (Moderate) as well as L (Low) at the end of each recommendation, specify the grade priority. High priority implies that the necessary measures should be taken immediately to address the findings which emerged during the audit of the management. Moderate priority implies that the findings that emerged during the audit of the management should be addressed within six months. Low priority implies that the findings that emerged during the audit of the management should be attended to within one year.

2.3 Method

The review is based on the material and documentation received from Sida, Swedish Red Cross (SRC), IFRC in Geneva, IFRC Zone offices in Kuala Lumpur and Nairobi, IFRC Regional office in Nairobi, IFRC Country Office in Khartoum, National Society in Khartoum and National Society in Kabul. Interviews and meetings with personnel at Sida and within the different levels of IFRC and National Societies have been conducted. During the review, we were presented with all relevant documentation requested, however due to specific internal rules and regulations as regards the dissemination of internal reports, there has been a number of documents that we have not been able to study. We do not see that this specific situation has affected our review, assessments and observations. Field visits have been carried out during November – December 2013 at all offices mentioned above.

For more detailed information on interviews/meetings, see Appendix 2.
3 The Red Cross Movement

3.1 About the Red Cross Movement

The International Red Cross and Red Crescent Movement is the world’s largest humanitarian network. The Movement is made up of nearly 100 million members, volunteers and supporters in 189 National Societies. It has three main components comprising of The International Committee of the Red Cross (ICRC), The International Federation of Red Cross and Red Crescent Societies (IFRC) and 189 recognized National Red Cross and Red Crescent Societies.

3.2 About the Federation (IFRC)

The International Federation of Red Cross and Red Crescent Societies (IFRC) is a global humanitarian organization coordinating and directing international assistance following natural and man-made disasters in non-conflict situations. Its mission is to improve the lives of vulnerable people by mobilizing the power of humanity.

Founded in 1919, the IFRC is a member organization composed and governed by the 189 member Red Cross and Red Crescent National Societies, a secretariat in Geneva and more than 60 delegations strategically located to support activities around the world. The Federation is guided by its “Strategy 2020”.

The IFRC works with National Societies in responding to catastrophes around the world. Its relief operations are combined with development work, including disaster preparedness programmes, health and health care activities, and the promotion of humanitarian values.

The headquarters of the IFRC are in Geneva. There are five Zone offices are located in Europe (Budapest), Africa (Nairobi), Americas (Panama), Asia Pacific (Kuala Lumpur), and Middle East-North Africa (Beirut). There are fourteen (14) permanent regional offices around the world. There are more than 60 country delegations around the world including representative offices in New York (to the United Nations), Addis Ababa (to the African Union) and Brussels (to the European Union).

3.3 About the member organizations

National Societies

There are 189 National Red Cross and Red Crescent Societies around the world. This unique network forms the backbone of the International Red Cross and Red Crescent Movement. Each National Society is made up of volunteers and staff providing a wide variety of services, ranging from disaster relief and assistance to war victims, to first aid training and restoring family links.

The National Societies work in the humanitarian field to support the public authorities in their own countries and do this as independent auxiliaries to the government. Their local knowledge and expertise, access to communities, and infrastructure enable the Movement to secure the right kind of help where it’s needed, fast.
The Swedish Red Cross (SRC)

The Swedish Red Cross (SRC) is a non-profit organization, founded and recognized in 1865 by the International Committee of the Red Cross (ICRC), and has been a member, since 1919, of the International Red Cross Movement, which consists of 189 National Societies, the International Federation of Red Cross and Red Crescent Societies (IFRC) and the ICRC.

SRC is recognized by the Government of Sweden as the only National Red Cross or Red Crescent Society of Sweden. SRC must be, and is, compliant with Articles 3 (National Red Cross and Red Crescent Societies) and 4 (Conditions for recognition of National Societies) of the Statutes of the Movement.

SRC’s international capacity building programmes consist of 12-15 long-term partnerships with National Societies. The emergency programmes comprise global responses to humanitarian disasters. In 2011, SRC’s responses to IFRC’s emergency appeals constituted approximately 29 percent of the total Sida funding for both long term humanitarian capacity building and emergency appeals. SRC also delegates supports multilateral and bilateral long-term capacity building programmes and emergency programmes for SRC, IFRC and ICRC.

The table below shows a summary of total income for SRC for 2012 and 2013, as well as disbursements to IFRC and National Societies.

<table>
<thead>
<tr>
<th>Income/disbursements</th>
<th>2012 MSEK</th>
<th>2013 MSEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total funds received from Sida</td>
<td>238,0</td>
<td>206,6</td>
</tr>
<tr>
<td>Total disbursed bilateral programmes</td>
<td>37,1</td>
<td>32,7</td>
</tr>
<tr>
<td>Total disbursed IFRC</td>
<td>173,3</td>
<td>196,8</td>
</tr>
<tr>
<td>Total disbursed ICRC</td>
<td>20,0</td>
<td>23,6</td>
</tr>
</tbody>
</table>
4 Constitution and Rules and Procedures

IFRC has compiled its statutory documents in the booklet “Statutory texts of the International Federation of Red Cross and Red Crescent and Red Crescent Societies”, adopted by the 16th Session of the General Assembly (Geneva, November 2007). The booklet includes the following areas:

- Constitution
- Rules of Procedures
- Financial regulations
- Staff rules
- Rules for travel assistance

In addition to these statutory documents, there is also a diverse regulatory framework applicable to IFRC and National Societies (NS), which has been adopted by the Movement and is entitled Governance Structures and the Federation Governance Structures. The soft and hard obligations within this framework are binding on National Societies. They include the Integrity Policy, and the Principles and Rules for Humanitarian Assistance, which contains rules and regulations concerning accountability, fraud and corruption, and similar areas.

4.1.1 Bodies of the International Federation

There are four Statutory Bodies of the International Federation which are:

- The General Assembly
- The Governing Board
- The President
- The Secretary General

4.1.2 Constitutional Commissions and Committees

The Constitutional Commissions and Committees of the International Federation are:

- The Finance Commission
- The Youth Commission
- The Compliance and Mediation Committee
- The Election Committee

4.1.3 Finance of the International Federation

The section for Finance of the International Federation refers to the following articles:

- Finances and property

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1 "Statutory texts of the International Federation of Red Cross and Red Crescent Societies" (IFRC), 2007
4.2 Rules of Procedures

The general object of the Rules and Procedures is to ensure the implementation of the Constitution of the IFRC. These Rules shall regulate the work of all bodies of the IFRC, established either by the Constitution or by a statutory body of the IFRC.

Rules and Procedures include the following sections:

- General provisions
- Admission and membership of National Societies
- General Assembly
- Elections
- Governing Board and Secretary General
- Finance Commission
- Youth Commission
- Regional Conferences
- Advisory bodies
- Financial regulations
- Final provisions

4.3 Financial regulations

These regulations govern the financial administration of the IFRC. The Secretary General is responsible for the financial administration of the IFRC in accordance with these Regulations and shall establish such rules and internal procedures as are deemed necessary.

The Financial regulations include the following regulations:

- Applicability
- The financial year
- The budget
- Annual contributions
- Resources and funds
- Custody of funds
- Investment of funds
- Risk management and internal control
- Insurance and losses
- The accounts
- Financial statements
- Management reporting
- Independent audit
- Internal audit and risk management
- Delegation of authority
- General provisions
5 IFRC Financial Management systems

5.1 General

IFRC has set up a financial management system supporting a wide range of services delivered to IFRC members and other stakeholders. This system incorporates accountability requirements which vary for different stakeholders. The IFRC is designed to be flexible and sustainable in support of the IFRC’s essential services and commitments to stakeholders.

The IFRC’s financial management system is based on four key factors:

- The Constitution
- The Financial Regulations
- International Financial Reporting Standards (IFRS)
- Market factors (for example donor requirements and the demand for supplementary services requested by members)

Income sources

The IFRC generates the majority of its usual income from three sources:

1. Statutory contributions (National Society membership fees)

   National Society, who are recognized members of the IFRC, pay an annual statutory contribution. The total quota is fixed, but the contribution varies for each NS and is determined by a formula, approved by the General Assembly, which considers factors such as the NS income and the UN quota for the country in question. Annual income amounts to 36 million Swiss Francs. Major areas of expenditure are governance and the Secretariat’s support to governance, humanitarian values and diplomacy, National Society knowledge development, policy and programme development and related management support services and structures. Income from statutory contributions also supports IFRC zone and regional structures in the Middle East and North Africa, Europe, Asia Pacific, Africa and the Americas. These expenditures support regional IFRC service delivery of network-wide priorities, which are adapted to serve the local needs of National Societies.

2. Voluntary contributions

   Voluntary contributions are funds the IFRC receives to deliver humanitarian and development programmes, and to coordinate responses to disasters. Voluntary contributions represent the largest source of income to the IFRC and amount to an annual average income of 250 million to 500 million Swiss Francs. Major areas of expenditure are the coordination of international disaster relief operations, disaster risk reduction, health and social development-related

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2 "The Way We Finance” – An overview of our financial architecture (IFRC 2013)
activities, customized technical support to National Society programmes including capacity building and organizational development.

3. Supplementary services fees (charged on a cost-recovery basis)

Refers to supplementary services to National Societies or partners, such as rental of a vehicle or access to shared office space, that are delivered by IFRC. These services are invoiced on a full cost-recovery basis, which includes indirect costs. The IFRC does not make any profit on the service fees charged. Major areas of expenditure are the vehicle fleet, procurement and warehousing, local office premises and support service provision. National Societies and other partners’ in-country look to the IFRC to provide supplementary services as the IFRC is generally able to negotiate more competitive prices with suppliers, and enjoys legal status as an International Organisation. Annual average income amounts to 25 to 50 million Swiss Francs.

Programme overhead

For each programme funded by voluntary contributions, indirect expenses (i.e. overheads) are recovered by a programmes and services support recovery (PSSR) cost comprising 6.5% of the total programme budget. PSSR covers administrative and programme support costs which the IFRC incurs in supporting, monitoring and/or implementing a programme on behalf of a funding partner, such as programme quality control and coordination, human resources, information technology, audit, finance, communications and legal. For programmes within the humanitarian sector (United Nations, development agencies, etc) PSSR costs are, on average, 7%. An extra percentage of overheads are charged when funds are earmarked and require additional reporting.

5.2 Overview financial systems

IFRC has a number of integrated systems in order to ensure accountability and meeting the varying requirements of different stakeholders. We have summarized below the main systems that have been part of this assignment in regards to follow-up and assessment.

5.2.1 Accounting system - CODA

The accounting software used within IFRC is called CODA. CODA is a web-enabled transactional system handling and archiving all financial information. IFRC Finance Department has established rules for account codes verification that are used for the input of documents in order to provide a certain level of control and to prevent incorrect use of accounts. CODA accounting software is also complemented with CODA XL, which is a Microsoft Excel ad-in that makes CODA functionality available within Microsoft Excel, and provides users with the various solutions for input, enquiry and reporting.

Until 2010, IFRC had multiple reporting systems in place: corporate standard Business Objects system and bespoke DMR/FMR sites based on old version of Microsoft Analysis/Reporting Services which was not maintained. In 2010 IFRC closed the DMR (Donor Monitoring Reporting) as it was producing misleading project reports because of the changes in accounting practices related to IFRS. In addition to this, DMR also had a security flaw that allowed the general public to openly browse IFRC general ledger, including salaries and other classified information. A decision was taken to keep Business Objects and close the DMR/FMR
sites. This allowed IFRC to concentrate report development on a single platform and close direct access to the general ledger to non-IFRC parties.

### 5.2.2 Other financial and reporting systems

**APPLE – Appeal and Pledge**

APPLE (Appeal Pledge) is a web-based on-line system used to maintain master data for Appeals, Projects, Pledges, Suppliers and many other codes. All cash-pledges are registered in APPLE at IFRC head-quarter in Geneva.

**Fed Budget**

Fed Budget is the Excel based Federation Budgeting system that can be accessed directly at the respective delegation. In 2012, the new budget system Fed Budget was finalised and introduced at all levels of the organisation. Fed Budget ties directly into CODA and does not require any further input of data.

**SAP – Human Resources (HR) system**

SAP is a HR system that includes all documentation as regards staff and staff regulations and documentation.

**HLS – Humanitarian Logistics Software**

The Humanitarian Logistics Software (HLS) is used by the IFRC Global Logistics Services (GLS) for procurement and mobilisation of goods. The system is accessible and used at the headquarters in Geneva and at the Zone offices. The system is not implemented or used at Regional and Country offices within the Federation.

**Business Objects**

Business Objects is a reporting system and feeds into the different input systems. Specific reports are built in order to meet requirements from donors and other stakeholders. The Finance Department at the headquarters in Geneva is responsible for building report formats in the system.
6 General descriptions of procedures and routines

In regards to the Terms of Reference, there are several areas involving procedures and routines which were included in the review. Certain general procedures and routines for the IFRC organization and its offices have been summarized below, and apply to the different offices being part of this review as described in chapter 7. Observations and recommendations in regards are presented in the following chapters.

6.1 Agreements

There are several types of contracts and agreements signed in the chain from Sida to the implementing project. The basis for the cooperation is stipulated in the agreement between Sida and the Swedish Red Cross. Next in the chain of agreements is the framework agreement between the Swedish Red Cross (SRC) and IFRC, which together with the signed Cash Pledge, regulates the cooperation between the parties.

The IFRC pledge manager is the project or appeal manager responsible for the management of the pledge. This individual should be contacted by the donor on issues related to project or appeal implementation. The information in the Cash Pledge regulates the follow-up and reporting from IFRC to the donor, referring to earmarked or non-earmarked funds.

A Cooperation Agreement/Memorandum of Understanding (MoU) is signed between IFRC, ICRC and the National Society to establish operational arrangements in a given country. Furthermore, a Coordination Agreement/Project agreement is signed between IFRC and the National Society which regulates the specific programme/project in respect to objectives, results and budget, funding/implementing period, project manager, mechanism of funding and reporting etc.

In relation to legal status for the IFRC to undertake operations in a specific country, a Legal Status Agreements is signed between the IFRC and the local authority/government in respective country, and is signed by the Secretary General. A status agreement is the explicit expression by a Government of their recognition of the IFRC “international legal personality” and corresponding ability to carry out legal acts in that specific Country and the terms and conditions under which IFRC can carry out these legal acts (for example, tax exemptions, custom duty exemptions; immunity from national legal processes – and inviolability of our staff and property).

6.2 Audit

Regulations and procedures in regards to audit and risk management within the IFRC are handled by the Risk Management & Audit department (RM&A). Below is a summary of the internal guidelines as regards to internal and external audit.

Audit & Risk Committee

The Audit and Risk Committee was established as a sub-committee of the Finance Commission. The Audit and Risk Committee is not directly established under the Constitution.
The duties for the Audit and Risk Committee are: to assess the scope and effectiveness of the systems established by management to identify, to assess, manage and monitor financial and non-financial risks, to monitor and assess the role and effectiveness of the internal audit function, to review and monitor the content and quality of the external auditor’s management letter, and to monitor the follow-up recommendations made.

The composition of the Audit & Risk Committee is the following:

- Two Finance Commission Members
- One National Society Secretary General
- One former IFRC Secretary General
- One National Society Director of Internal Audit
- One external Finance Professional

The Audit & Risk Committee reports to the Finance Commission on the activities, findings and recommendations of the Audit and Risk Committee. The Finance Commission includes a report about the activities of the Audit and Risk Committee to the Governing Board and General Assembly and the chair of the Audit and Risk Committee provides verbal reports to the Governing Board at each ordinary meeting, and has a standing invitation to attend all Governing Board Meetings.

The internal audit, referred to as The IFRC Internal Audit Process, is specified in the IFRC Internal Audit Charter (2009) which prescribes the mandate, authority, duties and reporting of the Risk Management and Audit Department (RM&A). With a right of access to the Federation Finance Commission and the Audit and Risk Committee, RM&A reports directly to the Secretary General as an independent function of the International Federation Secretariat.

The activities are outlined in the RM&As Annual Audit Plan, based on a comprehensive risk assessment of all the Federation Secretariat activities, programmes and processes. The plan is agreed by the Audit and Risk Committee and approved by the Secretary General prior to its implementation.

Internal audit is regulated in the Internal Audit Charter. This Charter constitutes the framework for the RM&A function of the IFRC and establishes its mission: to provide high quality audit service that gives management reasonable assurance on the effectiveness of the Federation’s internal control environment and to act as an agent for change by making recommendations for continual improvement, thus providing assurance and assistance to management and staff in the effective discharge of their responsibilities and the achievement of the Organization’s mission and goals. The purpose of this Charter is also to strengthen accountability, stewardship and corporate governance in the Organization. The Head of Risk Management and the Audit Department of the Federation is responsible to the Secretary General and is part of the Federation staff. The Internal Audit Charter also regulates the reporting and working relationships for Governance and Management.

**External audit**

The IFRC consolidated financial statements are audited annually by an international external audit firm. As part of the annual audit plan, RM&A also initiates own external audits of major emergency appeals, and provide support to member National Societies by providing guidance on external audits.
The external audit of IFRC is carried out by KPMG in Geneva. The scope of the external audit also includes audit of Zone offices on a sample basis, based on the annual audit plan. The auditor requests documents regarding projects/countries on a test basis. The Zone and Regional offices are not carrying out local external audits.

In addition to the annual external audit of the consolidated financial statements of the IFRC, the IFRC also conducts standalone project financial statement audits for 15 to 20 of its largest operations annually.

There are several procedural documents in regard to audits, some as listed below:

- Guidelines for dealing with donor audit requests (authorization date 2003)
- Coordination of Audit Activities (authorization date 2003)

Audits are carried out for National Societies based on domestic rules and regulations, donor requirements and according to procedures under the Risk Management and Audit Department in Geneva, “Guide to external audits”.

For further information, assessments and recommendations as regards the audits see paragraph 7.1.2

### 6.3 Fraud and corruption

The Federation has produced several procedural documents as regards Risk Management and anti-corruption. As regards Risk Management, several documents have been produced, such as Audit Manual (February 2012), as well as a procedural document for the Risk Management Model (Authorization date 2005). The Audit Manual and the Risk Management Model consists of the following appendices:

- Risk factors
- Risk assessment table
- Status of implementation
- Report and monitoring

The Fraud and Corruption Prevention and Control Policy (Authorization date April 2012) outlines the International Federation’s approach to the prevention and control of fraud and corruption, including the investigation procedures that will be followed if there are suspicions of fraudulent or corrupt practices. If fraud or corruption is proven, appropriate disciplinary measures and legal action will be taken.

The policy applies to all personnel and it complements the IFRC Code of Conduct. All cooperating partners, contractors and suppliers will be made aware of the Policy, and its applicability in terms of the relevant contracting instruments. Also, all Members will be made aware of this Document. If the International Federation is informed of potential fraudulent or corrupt practices involving a Member, the International Federation will ensure that the National Society is made aware of such allegations.

According to the policy, member will fully cooperate with any investigations commissioned by the International Federation in this regard. Otherwise, and in line with the Federation’s Integrity Policy, it is expected that Members will take the necessary actions to address any allegations concerning their own operations.
Violations of integrity by a National Society or by a statutory body of the Federation can be brought to the IFRC’s Compliance and Mediation Committee.

There is an annual process of attestation whereby all Senior Managers attest to any cases of fraud or irregularity, related party transactions and/or contingent liabilities. This is part of the internal control processes of the IFRC and forms part of the annual audit update.

6.4 Working advance

Payment within the multilateral cooperation which takes place via the Federation is executed either via the Working Advance (WA) or Cash Transfer System.

Cash transfers can only be provided to National Societies (NS) where the NS satisfies the assessment of financial management capacity as per the Financial Management Questionnaire. Furthermore, a Coordination Agreement must be in place between the Federation and the NS, which includes an overall framework for co-operation on Financial Management and Auditing issues, specifying that the transfer mechanism can be used. Procedures for Cash transfer to NS have been established by the IFRC.

WA is used when IFRC does not consider the capacity of the NS to be sufficiently strong. These payments can refer to both long-term support and emergency funds.

Procedures for WA to NS (WANS) have been established by the IFRC. The purpose of WANS is to advance cash to NS to allow NS to implement parts of a Federation project under their direct management and to contribute to the development of the financial management and reporting capacities of the NS. The latter takes place on the basis of using the WA system as a learning process.

As regards WA, the NS is accountable for the following areas;

- Preparing the project proposal and budget and submitting it for approval to the Federation Project Manager (PM),
- Submitting a request to the Federation PM,
- Acknowledging receipt of the WA payment and ensuring that the funds are properly spent in accordance with the budget, in order to achieve the project objectives,
- The reporting on the use of the funds transferred in accordance with the reporting requirements set out in the Letter of Agreement for the Project, and
- Original supporting documents should be attached to the report, signed by the NS before being sent to IFRC. Brief translation of the original documentation should be made into one of the four official Federation languages.

The Federation will review and validate the WA report to ensure that it agrees with the Letter of Agreement for the project (including the budget) and that all the supporting documentation is correct and complete. The validated report is presented to the Federations Finance for recording in the CODA System.

Furthermore, the Procedure for WANS regulates;

- Request for and approval
- Payment
- Reporting
• Accounting
• Reconciliation and clearance
• Hand over

WA can only be issued to National Societies where there is an approved proposal and budget and an assigned Federation Project Manager, where a Coordination Agreement exists between the Federation and the NS which includes an overall framework for co-operation on Financial Management and Auditing issues and where a specific Letter of Agreement for the Project exists between the Federation and the NS (refer to List of Forms) which includes the Terms and Conditions for Project Support to National Societies.

### 6.5 Procurement

Routines and regulations as regards Procurement are regulated in the Procurement Manual. The Federation also refers to its external web-site, Procurement Portal.

Procurement is understood to cover all actions related to the acquisition of goods, services, and capital items (including renting of equipment or facilities) from needs identification to supplier contract management. The International Federation is understood to include all secretariat offices (Geneva and field offices) regardless of location.

The Global Logistics Service (GLS) of the IFRC is a recognized provider of humanitarian logistics services. It delivers services to support the core work of the Red Cross Red Crescent. The GLS also offers these services on a non-profit basis to third parties in the humanitarian sector and to governments.

Procurement is a key logistics service delivered by GLS in response to operational requests. Procurement of goods and services within the IFRC is executed following the IFRC procurement procedures, processes and guidelines. The main objective of IFRC procurement is to provide the humanitarian operations and beneficiaries with the right quality goods and services at the time and locations they are needed, as well as to deliver those services in the most cost-effective and efficient manner.

The IFRC procurement manual, which is the guiding document for all IFRC procurement activities, defines the governing principles, social and environmental requirements and roles and responsibilities according to defined authorization levels. The manual describes the procurement process in general and provides guidance on specific procurement activities, such as procurement of medical supplies, food, specialized services, and construction contracting, among others.

The procurements within IFRC are made by:

• Country Delegation/Regional Delegation (CD/RD)
• Regional Logistics Unit (RLU) (Dubai, Panama, and Kuala Lumpur)
• Geneva Logistics Department (LD)
• National Society (NS)

IFRC has an extensive procurement manual, totaling 94 pages. The document describes the general principles and ethics, roles and responsibilities according to authorization levels, the procurement process and guidelines for specific procurements.
7 Our observations and recommendations

Based on the Terms of Reference, we have structured our observations for the different levels within the IFRC and National Societies based on the field visits that have been carried out. Below, we have summarized our observations for each level and have highlighted our assessments and recommendations for improvements.

7.1 IFRC Head-quarter in Geneva

As part of the assignment, we visited the head-quarters of IFRC in Geneva in December 2013. During the visit, we had the opportunity to meet with the management and a number of staff members. See further Appendix 2.

Based on the Terms of Reference, interviews were held with different departments and we have summarized below our assessments and observations from these meetings.

7.1.1 Organizational structure

During the visit to the head-quarters in Geneva, a meeting was set up with the Office of the Secretary General.

According to the Constitution, the Secretary General shall be appointed by the Governing Board, for a period of up to four years, renewable. The present Secretary General was appointed in July 2008 and his term will end in early 2014. During the period of the audit, a recruitment process was underway. This process will be finalized during the spring of 2014 and a new Secretary General will be appointed.

According to the Constitution, the Secretary General is to establish a framework of internal controls supported by comprehensive procedures in order to:

- Ensure effective protection of the assets of the International Federation and guard against fraud;
- Ensure the completeness of data and reliable financial reporting;
- Ensure compliance with local law;
- Ensure the economic use of the resources of the International Federation.

The Secretary General is to establish appropriate levels of authority and designate the officers authorized to receive funds, incur financial obligations, and make payments on behalf of the International Federation.

These constitutional provisions refer to the International Federation as a legal institution: the Geneva-based Secretariat and its offices around the world. The framework of internal controls applies to the IFRC secretariat offices worldwide and to the transactions managed by its representatives with third parties, including members of the Federation engaged contractually by the Federation. This work is guided at governance level by the Audit and Risk Committee.
Outside the Federation secretariat, matters of integrity referring to the legally independent Federation members, are prescribed by a separate article in the Constitution, Article 10 entitled “Integrity and compliance”. This states that the National Societies and constitutional bodies of the International Federation are expected to comply with the applicable integrity policies adopted by the General Assembly and National Societies and also with the duties of National Societies as set out in the Constitution. Article 31 further clarifies how this work is supported at governance level by the Compliance and Mediation Committee, to whom allegations of a breach of integrity or any dispute may be referred by any National Society or body of the International Federation.

Whenever IFRC channels donor funds, including through member National Societies, IFRC exercises oversight and its accountability responsibilities, however, for the broader accountability and integrity standards of the 189 independent nationalities, apart from the internal mechanisms which can lead to expulsion of the NS from the Federation and apart from the contractual obligations owed to the Federation enforceable through dispute settlement mechanisms, the Federation does not legally control the National Societies.

In November 2013, Sydney, Australia played host to the 19th General Assembly of the International Federation of Red Cross and Red Crescent Societies (IFRC) and Council of Delegates meeting of the Red Cross Red Crescent Movement. During the General Assembly a new Governing Board and the current President was re-elected.

It was highlighted during the interview that there has been an increased focus on accountability and capacity during the last couple of years. It was mentioned that the mind-set of IFRC is to accompany its members, rather than put sanctions on members. There has been a focus on building a framework to work towards and build up member’s organizations within the movement. An “Accountability Framework” was presented and discussed during the General Assembly in November 2013.

Our assessment is that we note that the area of transparency needs to be improved and further clarified. We note that the reporting lines within the organization are, to some extent, not clear. The organization has many layers of decision making from Head-office, Zone office, Regional office and Country office. The organizational set-up as regards reporting is that all departments at the head-quarters and the Director of Zones are all reporting directly to the Secretary General. During the last two years we note that more focus has been directed to risk management and anti-corruption work. An “Accountability Framework” was presented at the General Assembly in Sidney in November 2013, and there are indications of further work to be carried out with a “Disclosure Policy” in regards to transparency. In regard to capacity support we note that Country offices are established in countries where the National Society needs capacity support in order to strengthen its organizational structure, however we see that many Country offices have been established for a very long time (e.g. Country office in Khartoum).

We recommend that

- 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. (M)
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. (M)

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 enabling and facilitating resources and capacity support to reach the National Societies in an effective and transparent manner. (M)

7.1.2  **Risk Management and Audit**

During the visit to the head-quarters in Geneva, a meeting was set up with the Risk Management & Audit department (RM&A).

**General**

The RM&A department consist of a Head of Department (appointed in 2008) and four (4) staff members, whereof one staff member is located at the Zone office in Kuala Lumpur as a Senior Auditor. At present there is a vacant position as Senior Auditor located at the Zone office in Nairobi.

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 Internal Audit Charter is the basis for the IFRC internal control and constitutes the framework for the Risk Management and audit function and defines its mission:

*Its Mandate is to provide the Federation Management with reasonable assurance on the effectiveness of the Federation’s internal control environment and act as an agent for change by making recommendations for improvement.*

The Internal Audit Charter was revised in 2009, and according to the information received, the Charter had, at that time, several areas which needed to be improved from previous version. The RM&A reporting and relationship with the Federation is included in the Internal Audit Charter specifying the reporting lines within Governance and Management.

**Internal and external audits**

The main areas of activities for the RM&A are the following:

- Internal Audit activities
- Risk Management activates
- Support to National Societies
- Coordination of External Audits
The Internal Auditor shall prepare an audit plan based on a risk assessment to be carried out at least annually, taking into consideration requests and comments from the Secretary General, the Risk Management and Audit Committee, Zone Directors and Under Secretary Generals. The Audit Plan shall be approved by the Secretary General prior to its implementation. The Audit Plan is a “living” document and includes, for example, entity audits, process audits, systems audits and investigations into allegations of wrong doing. The Audit Plan also includes external audits of major emergency appeals.

In regards to internal audit reports, these are detailed and mainly refer to compliance with rules and regulations.

In regards to coordination of External Audits, the RM&A refers to the following areas of work that are carried out by external auditors:

- IFRC Consolidated Financial Statements
- Audits of a specific Appeal as part of the Audit Plan
- Audits requested by Donors
- Audits of Cash contribution to National Societies
- Audits of funds received by National Societies (directly or indirectly) in response to IFRC Appeals
- Audits carried out by Donors but coordinated by RM&A
- Certifications carried out by RM&A

The RM&A have regular meetings with appointed external auditors and meet approximately once every month to exchange information.

KPMG has been appointed external auditor since 2008, and the interview was carried out with the auditor in charge. The external audit cooperates with the internal audit carried out by IFRC. An assessment has been made of the internal audit and concludes a "highest level of reliance". The assessment criteria have been competence, independence and intelligence. The external auditor’s assessment is that the internal audit at IFRC is doing an important job, focusing on risk and materiality. They receive, on a continuous basis, internal audit reports for information. The reports are detailed and written for internal use only. The nature of the findings contained in the reports is, in most cases, not significant and primarily refer to areas that do not comply with policies.

KPMG’s assessment is that the Federation has good internal control of the Secretariat in Geneva and at Zone level. KPMG’s mission is to gather sufficient audit evidence to be able to sign the audit report relating to Consolidated Accounts for the IFRC.

KPMG has as a special commission to annually review some 20 projects and perform a detailed test. According to KPMG, there are no significant observations to report from this specially commissioned audit.

If the Federation suspects that fraud or irregularities exist, KPMG can be tasked to conduct a special audit.

Reports (Independent Auditors Reports) from external audits are posted on IFRC public website, however no management letters are posted. Although, the overall reporting is submitted in full to the Secretary General with a copy to the Audit & Risk Committee and Finance Commission. Specific request of external audits and
emergency appeals audits are shared with respective donor. Internal audit reports are not shared with third parties, and have not been available during this review.

**Risk management**

One of the RM&A areas of responsibility is the development of the risk management systems within the Federation, which was fully implemented in 2000. The RM&A covers the areas:

- Design and rollout the Risk Management Framework
- Provide training and raise awareness
- Maintain the IFRC Risk Register

There is a procedural manual as regards the Risk Management model, which also includes a number of appendices.

There are a number of risks that have been identified and which are summarized in the Risk Register. According to the Risk Register presented to the Global Senior Management Team in March 2011, the top nine risks were:

- Competition (not recognized worldwide as a leading humanitarian network)
- Funding (imbalance between funds available and funding required)
- Global Governance (ineffective or incoherent governance)
- People Management (not addressed appropriately and timely)
- Movement (National Societies and the Secretariat do not speak with one voice)
- Regulatory and Legal Compliance (non-compliance with international/local regulations)
- Services (services delivered does not meet expectations)
- Global Trends (not sufficiently monitored and considered)
- Volunteering (recruitment, training and retention of volunteers is declining)

The risk of fraud and corruption has not been listed as a priority risk in the 2011 risk register, as presented above, however, this area has been further highlighted in recent assessments.

**Anti-corruption**

An anti-corruption and fraud policy has been documented in “Fraud and corruption prevention and control management policy”. The procedure was approved by the governing board in September 2011. This Policy applies to all personnel and complements the IFRC Code of Conduct which all personnel shall adhere to.

According to the anti-corruption and fraud policy, the handling of any allegations of fraud or corruption, including investigations and any eventual disciplinary measures and/or pressing of civil or criminal charges, shall take place in accordance with the Standards for Investigation for the Risk Management and Audit Department and the International Federation’s Disciplinary Measures, its Staff Regulations and the anti-corruption and fraud policy. According to policies and regulations, as per the IFRC’s Code of Conduct and Staff Regulations, personnel having knowledge of an occurrence of fraud or corruption, or who have reason to suspect that a fraudulent or corrupt act has occurred, have a duty to promptly report any reasonable allegations through the channels identified therein. Personnel are reminded that a confidential service, currently managed by “Safecall” (whistle-blowing), is also at their disposal to report any suspected fraudulent or corrupt activities. The “Safecall” (whistle-blowing)
system is implemented within the IFRC, and does not include the National Societies. There are reporting lines within the Federation as regards the follow-up on fraud and suspicions, however it is unclear when reporting should be made available to donors and we see further room for development.

In order to strengthen internal control and prevent irregularities, a self-assessment tool has been developed called OCAC (Organizational Capacity Assessment and Certification). The assessment tool was distributed within the organization during 2011 and is now being implemented. Before the OCAC tool was introduced, there were other assessment tools and formats implemented, however, these tools have, since then, been developed and made coherent within the Movement. The finalized OCAC reports are in the ownership of the National Society, and the reports are compiled at the Federation.

In regards to evaluation and monitoring, the Planning and Evaluation Department have the responsibility of setting up structures and a framework for evaluation of activities within the Federation. The framework is to be applied to all evaluation activities by, or for, the IFRC Secretariat. According to the IFRC Framework for Evaluation (February 2011), the following eight evaluation criteria endorsed by the IFRC Secretariat determine what is to be evaluated in the IFRC work:

- The Red Cross and Red Crescent Fundamental Principles, Code of Conduct, and IFRC's Strategy 2020
- Relevance & Appropriateness
- Efficiency
- Effectiveness
- Coverage
- Impact
- Coherence
- Sustainability & Connectedness

Evaluations can be commissioned by a person or department in accordance with the evaluation standards and practices presented in this framework. This typically involves the programme senior management, or for evaluations involving multiple programme areas, the evaluation may require the involvement of Secretariat senior management. All evaluation reports carried out are available on the IFRC external webpage.

There is ongoing work within the Federation with an "Accountability Framework", which was also addressed during the General Assembly in Sydney in November 2013. The organization discusses and address issues related to anti-corruption. However, it is unclear whether sufficient funds has been budgeted for the activities carried out in relation to anti-corruption work, which may limit the implementation and the additional work that needs to be followed-up and reported upon. During the General Assembly, a workshop was held addressing these issues and it was decided that a "Disclosure Policy" should be documented in order to agree on how information should be communicated and disclosed, which in the current situation does not exist.

Our assessment is that there are several areas regarding which we have made observations in regards to transparency and organizational structure. We note that the Audit and Risk Committee is not included and endorsed in the Constitution. We also note that the Internal Audit Charter presents a specific reporting structure which limits the transparency within the organization, hence there are unclear reporting lines as regards RM&A, as well as regards the General Secretary. We also note that the IFRC still has a way to go in terms of implementing the anti-corruption policy and
developing tools and reporting in relation to anti-corruption and in reporting of identified suspicions and investigations. It is unclear whether sufficient funds have been allocated towards the work carried out in relation to anti-corruption work, which may limit the implementation. Our assessment is also that the organization lacks a structured and target oriented work to develop and implement risk management at all levels within the organization.

We recommend that

- The Internal Audit Charter be reviewed and updated in order to facilitate transparency and clear reporting lines for relevant stakeholders, including donors. (H)

- 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. (H)

- 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. (H)

- 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. (H)

- A structured and target-oriented process be developed to implement risk management at all levels within the organization. (M)

- The work carried out in relation to internal audit is elevated in status and that its independence is ensured. (H)

7.1.3 Finance Department

The Finance Department consists of 20 staff and is managed by the Head of Department. The five Zone offices report directly to the Finance Department in Geneva. The International Federation Finance structure comprises staff at headquarter level in Geneva (Finance Department), each of the five Zone offices (Zone Finance Unit, ZFU) and each of the IFRC Regional and Country offices.

The financial governance structure of the Federation comprises the following:

- Finance Commission (function and composition)
- Financial regulations (governs the financial activities of the IFRC)
- Plan and Budget (approved by General Assembly)

The Finance Department is responsible for managing the overall budgeting, accounting, treasury, assets, financial reporting and financial services operations of the IFRC. Its functions include managing internal controls to mitigate risk, creating and presenting financial reports to internal and external stakeholders, preparing statutory accounts in accordance with International Financial Reporting Standards, ensuring that the official accounting records of the IFRC are up-to-date and accurate,
safeguarding the assets of the IFRC to minimize risk of financial loss, and developing and maintaining costing systems and reporting tools to provide high-quality financial information and analysis that supports management decision-making.

The International Federation uses the following main web based Finance systems: CODA (accounting), APPLE (software developed by IFRC), SAP (Human Resources), HLS (Logistics) and Business Objects (Reporting). Through these systems, the IFRC undertakes a global overview of income, expenditures, as well as legal commitments (staff contracts, procurement in progress, etc.) at all levels of the organization. In 2012, a new budget system, Fed Budget, was finalized and introduced at all levels of the organization. Fed Budget ties directly into CODA and does not require any further input of data. See further description in chapter 5.

The financial monitoring cycle includes the process of resource mobilization, recording income in contractual cash pledges with the reporting requirements in APPLE, pre-financing through a Federation system of PEAR (formally Authorized Expenditure Approval), monitoring of payment of pledges, revisions of budgets, if necessary, and the monitoring of expenditure according to budget, as well as reporting.

The Budget and Analysis Unit of the Finance Department reports on the IFRC Secretariat overall financial performance every month and provides advice about corrective actions, as needed. The Federation publishes each month data, including global key performance indicators as regards Finance and Reporting, on the Senior Management Dash board of the International Federations intranet, FedNet. This is done to achieve increased transparency and awareness.

The DMR system (Donor Reporting System) is only accessible by the Finance Department for structuring donor and stakeholders reporting. The focus is on having standard reporting to donors, however, if donors request specific reporting, the Federation tries to meet with these requirements. Reports on FedNet are updated on a daily basis.

The Finance Department has developed and produces a large number of procedures and documents on routines, which are all accessible within the Federation through FedNet.

Our assessment is that the Finance Department at headquarters is well staffed and has a clear division of responsibilities. The Finance Department has developed a number of policy and procedural documents and has developed appropriate processes for the organization. In regards to procedural documents, we note that several documents are several years old and need to be reviewed and regularly updated. The documents are accessible on the intranet FedNet.

As regards the accounting system, our assessment is that the CODA system is well implemented and fully integrated with other supporting systems and platforms. All offices within the Federation have access to the accounting system and the accounting system serves as input to the output reporting generator, Business Objects, which enables the tailoring of reports to ensure transparency and accountability. Monthly reporting is appropriate and report structures have been further developed with key indicators.
We recommend that

- The Finance Department ensures that procedural and routine documents are regularly updated. (M)

7.1.4 Global Logistics Services Unit

The Global Logistics Service (GLS) of the International Federation of Red Cross and Red Crescent Societies (IFRC) is a recognized provider of humanitarian logistics services.

The IFRC global logistics network includes:

- GLS management at the Geneva Secretariat headquarters
- GLS office in Dubai
- Four zonal logistics units located in Panama, Kuala Lumpur, Nairobi and Beirut
- Logistics hubs
- Country-based logistics set-up

A total of approximately 50-60% of all Appeals costs within the Federation refers to logistics, which constitutes the largest budget line. The logistics unit was regionalized before the Zone offices were established in 2007. For example, a service office was established in Kuala Lumpur before the Zone office was established there. This logistics office was responsible for the logistics and procurement in that region.

The GLS is full-cost covering its activities and runs as a company within the IFRC. There are a large number of procedural documents in place and they are all accessible on the internet. Procurement at IFRC is conducted at a global level within GLS units located in Geneva, Dubai, Kuala Lumpur and Panama. Approximately 40% of the total procurement value is conducted at country level by either the Federation offices or by National Societies.

All medical procurements are undertaken at Geneva level as this is the only location with specialized competence for such activities. Also, final quality assurances of construction contracting files are handled at Geneva level.

The IFRC uses Service Agreements with all beneficiary agencies including the Red Cross Red Crescent National Societies and other humanitarian parties. Since 2005, the IFRC GLS has been accredited as a Humanitarian Procurement Centre by the Directorate General for Humanitarian Aid and Civil Protection (ECHO), mandating the GLS to provide procurement services to DG ECHO working partners.

The IFRC introduced the practice of establishing Framework Agreements with selected suppliers for relief items in 2001. Framework agreements are established for commodities that have a proven demand, i.e. frequent procurement of the same commodity and goods requested in large volumes. Purchasing goods from framework agreements has proven to be an effective experience in terms of securing the price, guaranteed quality, available quantity and agreed delivery terms for the identified number of goods.
The Humanitarian Logistics Software (HLS) is used by the IFRC GLS for procurement and mobilisation of goods. A dedicated procurement portal is used as a tool for supplier registration. This also provides a link to the Emergency Items Catalogue with existing framework agreements, advertisement of open tenders and other relevant information. However, we note in regards to the logistics and procurement system (HLS), that this is only implemented and used at headquarters and Zone offices. The system is not implemented at Regional and Country offices, which indicates a weakness and risk in connection with procurements and logistics. We are informed that a new upgraded logistics system will be implemented, which will also include the Regional and Country offices.

Our assessment is that we have observed a number of areas which need to be followed-up and further developed. We note that there is a weakness in ensuring that procedures in regards to procurement and logistics are complied with. There is no specific routine to follow up on compliance as regards the National Societies. We also note that the organization does not fully adhere to the structure that should be in place, for instance that the Zone offices are handling the procurement. We note that the Regional office in Nairobi is handling procurement and logistics, but this should be done at Zone office level. We also note that when Legal Status agreements are not in place for the Federation in specific countries, the local procurement process is handled by the National Society, which implies that the Federation cannot fully ensure compliance with systems and routines, although, the Federation has the option of having its own staff present. Large procurements are handle by the Secretariat in Geneva or the via procurement centre in Dubai. Still, we note that there is some degree of uncertainty as regards the storage of goods and their ownership. When there is no Legal Status agreement in a country, the ownership of goods is transferred to the National Society and is not controlled and followed-up by the Federation.

We recommend that

- IFRC ensure that the new HLS Logistics System be implemented and accessible to all IFRC offices. (M)

- IFRC ensures that Legal Status agreements are signed in countries were considerable activities are carried out, in order to access full legal status and ability to act in that specific country. (M)

- 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. (M)

7.1.5 Legal department

The Legal Department at the Secretariat in Geneva consists of 4 staff plus an external consultant. In addition, there is also one legal member of staff at the Zone Americas (Panama) and Asia Pacific Zone (Kuala Lumpur). In regards to the Africa Zone the legal part is handled at the Secretariat in Geneva. The department is divided in two units handling disaster law and corporate agreements.
In regards to agreements, the Legal Department handles all agreement matters within the IFRC, including the following:

- Legal Status agreements
- Grant agreements
- Partner agreements
- IT/Service providers agreements

In regards to Legal Status agreements, there are presently 78 Legal Status agreements signed within the Federation, and a Legal Status agreement should be in place in all countries in which the Federation has major operational activities.

The Legal Department uses a manual contract management system, however a new system will be implemented. The system has a structured approval process and also contains all formats for different agreements. Currently, the Legal Department has approximately 60 different contract templates. Certain agreements are standardized and others are specific formats, e.g. donor agreements.

*Our assessment is* that the Legal Department has an important role to play in order to ensure clarity in the agreements and contracts between the Federation and its donors and stakeholders. As regards agreements with donors and SRC, we note that there is room for further clarity in the agreements in relation to dissemination of reporting and information sharing. The agreements between the Federation and SRC/Sida need to be developed and the expectations set forward in the cooperation need to be precisely formulated and highlighted in the agreements, in order to ensure transparency and accountability.

**We recommend that**

- 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. (M)
- 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. (M)

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### 7.2 IFRC – Zone office Kuala Lumpur (Asia & Pacific Zone)

#### 7.2.1 Registration and organizational structure

The Asia Pacific Zone of the International Federation of Red Cross and Red Crescent Societies (IFRC) comprises the zone office in Kuala Lumpur, four regional offices in Suva (Pacific), Bangkok (Southeast Asia), Delhi (South Asia) and Beijing (East Asia) and 13 country offices. The Asia Pacific zone office works with the regional and country offices to support the 37 National Societies in the zone, according to their needs. The National Societies within the region are independent legal entities.

The Zone office in Kuala Lumpur was firstly established as Asia Pacific Service Center in 1997. When the reorganization within IFRC was carried out in 2007, the office was
already established and developed into Asia Pacific Zone Office. The office had, at that time, already established routines and staff, which has contributed to stability for the zone office and the region. The Asia Pacific Zone office has 85 employees, whereof 44 expats and 41 local staff. See organogram in Appendix 3.

The Zone office is led by the Director of Zone and is structured in two departments; Head of Corporate Affairs and Head of Operations. In addition, two departments in the Zone office, Asia Pacific Zone, are also comprised of four regional offices, as listed above.

The Zone Finance Unit (ZFU) consists of 8 employees including the Financial Controller. In addition, there are 5 finance delegates and 55 finance national staff within countries in the Asia Pacific region. The ZFU is headed by the Zone Financial Controller based at the Asia Pacific zone office. The zone finance department comprise of 4 national staff, including the Financial Controller. The staff is divided into the following work areas:

- Financial Controller (1)
- Project Manager finance (1)
- Accounting & Reporting Officer (1)
- Tsunami finance analyst (1)
- Senior Finance Analyst (4)
- Zone Finance Department (4)
- Zone Logistic finance officer (1)

The Senior Management team of AP Zone consists of the Director of Zone (acting since 2010), and four Head of Regional Delegations. Meetings are held once a month.

Our assessment is that the zone office in Kuala Lumpur is well established and has been stable since the establishment of the Service Center in 1997, and during the decentralization process 2007 the office was already established, which has contributed to stability and continuity.

7.2.2 Agreements and segregation of duties

Agreements

The overall structure of agreements is described in section 6. Regarding the Asia Pacific Zone, the scope, according to the Terms of Reference, is to review the Zone office and National Society in Kabul, Afghanistan.

In relation to legal status of the IFRC enabling it to undertake activities in a specific country, a Legal Status agreement is signed between the IFRC and the local authority/government in the respective country, signed by the Secretary General. This agreement is the legal base for Federation’s operations and entitles immunity and tax exemption. We have reviewed the Legal Status agreement concerning legal status of the International Federation in Afghanistan, signed 8 October 2003 by the Ministry of Foreign Affairs and the Head of Afghanistan Delegation. The Asia Pacific zone consists of 17 IFRC country delegations, whereof Legal Status agreements are not yet in place for three countries (Myanmar, Philippines and Pakistan). The process and negotiations are ongoing.

For operational arrangements in a country, a Memorandum of Understanding (MoU) is signed between IFRC, ICRC and the National Society. This agreement regulates the cooperation and the respective roles and responsibilities. We have reviewed the MoU
between the Afghanistan Red Crescent Society (ARCS), IFRC and ICRC (The International Committee of the Red Cross, signed 22 March 2004 by all three parties. There are also specific agreements signed for project implementation, Coordination Agreements. These agreements are signed by the Director of Zone and the Project Manager.

Segregation of duties

AP Zone Finance unit consists of four Senior Finance Analysts and the team provides support to all the Federation country offices (CO) and the National Societies within the Zone. The AP Finance Unit at the Zone Office has the following primary duties:

1. Reporting, validation of all financial reports, standard pledge reports, non-standard pledge reports, interim reports, final reports, appeal based reports.

2. Monthly closing check of balance sheet, expenditures and movements of CO funds. All original supporting documents are sent from the CO to the Zone for review and validation.

3. Cash Request Analysis, validation of all cash requests from Region, CO and NS in countries without a CO.

4. Budgeting, validation of budgets prepared in the CO. When the budget is approved it is uploaded in the Federation Budgeting system (Fed Budget).

5. Advisory role, support to the CO.

6. Visiting the various IFRC offices in order to ensure that the IFRC routines and procedures are complied with.

All finance staff at zone offices, regional offices and country offices have documented job descriptions. The zone financial controller has the overall responsibility for the zone and for providing financial management reporting to Director of Zone, Head of Delegations, Finance department in Geneva and to the Risk Management & Audit Department in Geneva.

To ensure segregation of duties, there are a number of guidelines and procedural documents available on FedNet. There are specific procedures for cash requests, expenditure authorization, cash transfers, etc.

Cash Request is undertaken on a monthly basis and is a report issued in two parts, Project Summary and Cash Request. The cash request is sent to ZFU by e-mail or by fax no later than on the 5th working day of the following month. The original should be signed by the Finance Delegate and by the Head of Delegation (as the Appeal Manager of the projects) and sent to ZFU with the Monthly Field Returns Documents.

As regards expenditure authorization, the procedural document routine covers all expenditure that is reflected in cost centers and in projects including cash, goods and services. For cost centers, expenditure can only be undertaken against an approved expenditure budget i.e. the balance of the approved budget less actual expenditure to date. No expenditure can be authorized above the level of the approved expenditure budget or in a period for which an approved budget does not exist. A manager is assigned for every cost center and project and is specified in the Appeal and Pledge system (APPLE). The manager is the only individual who can authorize expenditure on their cost center or project. Equally, the manager is the specific individual
responsible for ensuring that expenditure does not exceed the approved budget balance nor that it exceeds the specific budget account groups. All authorizations by a manager require the co-signature of the relevant finance personnel in the Delegation, ZFU or Secretariat. The finance personnel have the responsibility to validate the information and documentation. A specific document shows the authorization levels within the delegation.

According to procedural documents, cash transfers are provided to National Societies where there is an approved proposal and budget and an assigned Project Manager from both the Federation and the NS, where a coordination Agreement exists between the Federation and the NS, which includes an overall framework for co-operation on Financial Management and Auditing issues specifying that the transfer mechanism can be used, where a specific Letter of Agreement for the Project exists between the Federation and the NS (refer to List of Documents) which includes the Terms and Conditions for Project Support to National Societies, and where the NS satisfies the assessment of financial management capacity as per the Financial Management Questionnaire.

During the review a sample test of verifications, documentation and signatures was followed-up in regards to compliance with guidelines and procedures.

Our assessment is that Legal Status agreements have not been signed for three Country delegations in Myanmar, Philippines and Pakistan. We note that the process of negotiating these agreements is ongoing in all three countries, however these processes are very slow. We can see a risk in not having the Legal Status agreements in countries when there are large emergency appeals. If there is no Legal Status agreement, procurements that are administered and handled by National Society, there is a risk of non-compliance with rules and regulations in regards to IFRC funds. In regards to segregation of duties, our assessment is that routines and procedures at the AP Zone office are established and well implemented. Staffs are well aware of procedures and regulations.

We recommend that

- 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. (M)

- 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. (H)

7.2.3 Bookkeeping and accounting

The bookkeeping and accounting is done in the accounting software CODA. See a further description in paragraph 5. The AP Zone Financial Controller has full access to CODA (three levels). All financial staff within the finance units AP Zone (Zone, Regional offices and Country offices) has access to CODA (60 staff). A request for
access to CODA is made via approval and is signed by AP Zone Financial Controller based on a form submitted by the Country office finance manager. The HR Department and the IT Department provide (maps) the access.

Asia Pacific Zone has one (1) Zone office, four (4) Regional offices (RO) and thirteen (13) Country offices (CO). Out of the 17 National Societies in the area two (China and Nepal) have been approved for cash transfers. Disbursement is made against an approved budget and is recorded in the consolidated accounts on one budget line. An external audit is carried out at the local National Society.

As regards the remaining fifteen (15) Country offices in the Asia Pacific Zone, disbursements are made as Working Advances to the National Societies. All bookkeeping documentation and verifications referring to IFRC funding at the NS, are collected and sent to the Country office. The finance department at the CO reviews the documentation and fills out a checklist in order to ensure accuracy and completeness in the documentation. Thereafter, the CO sends all original documentation to the Zone office. This is done on a monthly basis. The finance unit receives all original documentation in regards to IFRC funding and a second check is made of all documentation based on a specific checklist. Original documentation and verifications for funding other than IFRC funding (e.g. public funding, bilateral funding, and multilateral funding) is kept at the National Society. The bookkeeping takes place in CODA at the Country office level and at the AP Zone Finance department.

During our review, a sample test was carried out as regards the book-keeping, standard documentation and signatures. A request for cash transfer is attached together with the original documentation, which is sent on a monthly basis, and a reconciliation of the accounts is also included. The cash transfer is followed-up against previous reporting, possible outstanding balances and budget by the AP Zone finance unit. After all checks have been made, the Financial Controller approves the request.

The bookkeeping is archived for seven (7) years.

During the field visit, we also reviewed a sample of bookkeeping documentation from National Societies which had been reported and sent to the Zone office, in regards to quality of vouchers and supporting documentation for reported expenditures. We reviewed bookkeeping documentation for the Afghan Red Crescent Society (June 2013) and for the Pakistan Red Crescent Society (August 2013).

Our assessment is that the routines and procedures for bookkeeping, accounting, reconciliation and approvals are complied with.

**We recommend that**

- IFRC confirm with SRC/Sida that the rules for archiving bookkeeping material and documentation apply to seven (7) years, and not ten (10) years as stipulated by Sida. (M)
Disbursement routines (cash and bank)

The AP Zone office manages cash and bank accounts and disburses funds to Regional offices and Country offices based on cash requests. Funds based on cash pledges are disbursed and managed by the Finance Department in Geneva. The disbursement routines are described in the document “Finance Internal Control System for Asia Pacific Zone”.

Petty cash

The request for payment from the bank is batched provided the documents are completed, approved and attached with relevant and original documents. The documentation is verified by Finance Coordinator, and approved by Financial Controller. Only one of the finance staff is able to sign, together with a second signatory from another department designated as a signatory.

Bank

Bank entries are made in the accounting system CODA. Twice a month bank reconciliations are made to ensure there are no returned cheques and to ensure that the bank accounts have sufficient balances. On a weekly basis, the finance department checks the RFP documents against the bank entries to ensure that the amounts and the codes are correctly entered and they are posted in the accounting system, CODA. Monthly bank reconciliation, based on the bank statements, is prepared by the finance department and validated by the Finance Coordinator and approved by Director of Zone.
Monthly reconciliations are made of the cash and bank accounts. A sample test review has been carried out to ensure proper documentation, quality assurance and to sign off for approval. A review has been executed on a sample test basis to ensure that the reporting has been submitted prior to the next instalment being transferred as stipulated in the budget.

**Working advances to National Societies**

Disbursement of Working Advances (WA) can only be issued to National Societies where there is an approved proposal and budget and an assigned Federation Project Manager, where a Coordination Agreement (Memorandum of Understanding, MoU) exists between the Federation and the NS which includes an overall framework for cooperation on Financial Management and Auditing issues, and where a specific Letter of Agreement for the Project exists between the Federation and the NS which includes the Terms and Conditions for Project Support to National Societies.

The National Society must submit a request for a WA using the Standard Working Advance Request form and this is sent to the Federation Project Manager. A separate request is to be made for each Project. The WA is to provide funds for a set period as defined in the Letter of Agreement for the Project, and once both parties are satisfied with the request, the Federation Project Manager will approve it and pass it on to the Finance Officer for validation and payment. The Zone Financial Controller makes the approval.

*Our assessment* is that the routines for disbursements are functioning well. Checklists are followed-up with, and finance departments at both Country office and Zone office are reviewing the requests for disbursement, before the Zone Financial Controller final approves them.

### 7.2.5 Procurement

At the AP Zone office, the Zone Procurement Coordinator is responsible for the procurements within the Zone Logistics Unit (ZLU). The procurement was decentralised from Geneva to the Asia Pacific Service Centre in 2006. As from 2007, the office became a Zone Office. The acting Head of Zone Logistics Unit has been working within the Department from 2006.

The Zone Logistics Unit is comprised of 10 staff, whereof 3 staff works with procurement. The procurement department at AP Zone supports the Country offices and National Societies within the Asia Pacific Zone. All of the coordination is handled at the AP Zone in terms of logistics and procurements.

There are several risk areas related to procurements, which the procedures and regulations are aimed at addressing (for example, registration of suppliers, cartels/bid rigging, supplying correct goods, etc.).

In regards to Pakistan, the procurements are carried out by the National Society, and not by the Country delegation, under the procedures of the Federation. However, the National Societies should follow the regulations of the Federation. Procurements related to funds from the Federation must be undertaken based on the regulations from the IFRC.

During the review, a sample test of five procurements was carried out in order to ensure compliance with rules and regulations and to assess documentation and supporting documents. The list of sample tests is shown below:
Our assessment is that the AP Zone Logistics Unit and the procurement team are well established. Based on the sample testing, we note that procedures and documentation are well adhered to. However, in regards to countries were no Legal Status agreement has been signed, the Country office does not have the ability to carry out legal acts in that Country (for example, tax exemptions, custom duty exemptions, immunity from national legal processes, and inviolability of staff and property).

We recommend that

- 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. (H)

### 7.2.6 Audit

The Risk Management & Audit department in Geneva has located one senior field auditor at the AP Zone office. The senior field auditor is part of the global team and reports directly to IFRC Geneva. The global team is comprised of a total 5 individuals and they meet twice a year in Geneva. The senior field officer at AP Zone focuses her work within the Asia Pacific region, but she also carries out assignments in other regions when necessary, according to the audit plan. Assignments which can be carried out are mainly compliance audits and system-based audits. Financial audits are not carried out by the internal auditor. The duties within the zone are also to train and ensure that risk management and audit procedures are understood and complied with.

The Risk Management & Audit team in Geneva establishes an audit plan annually, which is the basis for the work carried out within the zone. Due to several emergencies, focus was placed on the on Asia Pacific region during 2008 – 2010. From 2010 onwards there has been less focus on this zone, due to other emergencies in other areas, such as in Haiti.

The senior field officer also takes part in the Management Team meeting at the AP Zone twice a month. However, we note that the senior field officer does not take part in everyday activities within the Zone office.

Our assessment is that the AP Zone office has a well-established relationship with the Risk Management and Audit department in Geneva, as a senior field auditor is located at the office. Consequently, the AP Zone has easy access to support and assessments’ concerning this area as it applies to the zone. However, we note that the
field senior auditor is not as involved in the everyday activities in the Zone office and in the region, something that could be beneficial. A closer link to the everyday activities would enhance the possibility of identifying any further needs for capacity support and the improvement of deficiencies.

We recommend that

- 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)

### 7.2.7 Risk management and anti-corruption

The main responsibility for risk management and auditing, including work with anti-corruption, lies with the department of Risk Management & Audit (RM&A) in Geneva. A risk management model has been distributed within the organization since 2005, however, several improvements and intense work have been carried out in order to develop risk management and the work with anti-corruption. Certain procedures and documents have been circulating within the organization from earlier years, but a more intensified work has been carried during the last 2-3 years. Routines and procedures for risk management and anti-corruption have been further developed.

In April 2012, a risk management training program was carried out for all staff at the Zone office, in order to understand risk and risk management, agree on the benefits of risk management, understand the assurance concept (link between strategy, risk management, internal controls and audit), create transparency through dialogue within different teams and levels within the AP Zone Office, develop draft prioritised Risk Register (APZ Specific), prepare a draft Action Plan for top risks, identify Risk Owners, and agree on the next step. This risk management training was carried out by the RM&A team in Geneva.

Training has also been carried out on the anti-corruption policy and a report from this training was produced in June 2012 on the completion of the course.

The head of delegations are responsible to ensure that the procedures regarding risk management and anti-corruption are implemented and adhered to. According to Constitution Article 10 Integrity and compliance, National Societies and constitutional bodies of the International Federation are expected to comply with the applicable integrity policies adopted by the General Assembly, and National Societies are also to comply with the duties of the National Societies. Any failure to comply with the policies or duties, will be considered to comprise a breach of integrity and shall be referred to the Compliance and Mediation Committee.

Our assessment is that the Zone office has implemented risk management within the organization during the last couple of years, through documentation, training and capacity building. In addition to anti-corruption work, intensified risk management work has been carried out during the last year. However, we note that there is room for further development as regards reporting and documenting irregularities and suspicions of fraud, as well as in terms of non-compliance with policies and
procedures. There are no clear guidelines as to whom to report when suspicion of irregularities arises.

We recommend that

- Resources for risk management and anti-corruption are made available in order to strengthen the organization and facilitate prevention. (M)
- The documentation and reporting of irregularities and suspicions be developed in a coherent way including action plans. (M)

7.2.8 Reporting and follow-up

Monitoring and reporting are supported by a number of web-based systems, such as the finance systems: CODA (accounting), Apple (software developed by IFRC), SAP (Human Resources), HLS (Logistics) and Business Objects (Reporting). Through these systems the IFRC has a global overview of income, expenditure as well as legal commitments (staff contracts, procurement in progress, etc.) at all levels of the organization. In 2012, a new budget system, FedBudget, was finalized and introduced at all levels of the organization. FedBudget ties directly into CODA and does not require any further input of data.

Each programme has a designated manager who is accountable for the financial management of related projects. The names of the managers are recorded in the finance systems and they are supported and advised by the Finance officers who have a technical reporting line to the Zone Finance Unit (ZFU). The expenditure is recorded by Finance Accountants at the country level, CODA is updated daily and the information is made available to the IFRC globally. The financial accounts are closed and consolidated monthly and validated by the Zone Finance Units. The managers receive automated messages every month on the financial status of their programmes, with suggestions if any corrective action needs to be taken.

During the review, a sample test was carried out regarding financial reporting from the finance department at country level, submitted to the Zone finance unit. A sample was carried out on the financial reporting from Pakistan and Afghanistan for two sample months during 2013. We have reconciled the Projects Financial management status report with the Development Programme Financial report for the same period. We have also, on a sample test basis, verified that the appropriate individuals have reviewed and signed the reconciliations and financial reports.

Several reports are produced by the AP zone office for monitoring and follow-up. Monthly financial and narrative reports are submitted by Country delegations and Regional offices to the Zone office as described above. Quarterly financial reports are compiled at the Zone office and submitted to Director of Zone and IFRC Geneva.

The Budget and Analysis Unit of the Geneva Finance Department reports on the IFRC Secretariat overall financial performance every month and provides advice about corrective action, as needed. The Federation publishes, each month, data including global key performance indicators for Finance and Reporting, on the Senior
Management Dash board on the International Federations intranet, FedNet. This is done in order to achieve increased transparency and awareness.

*Our assessment is* that the AP Zone office unit has a well-established finance unit and that these roles and responsibilities are clear and implemented within the department. There are several levels of checks and balances and the formal responsibility lies with the Finance controller. However, in light of the allegations and reported fraudulent behaviour in Pakistan as regards procurement (see also chapter 8), we see room for further development in terms of documenting and reporting any cases of suspicions and irregularities, and that such observations are reported and remedial actions are promptly carried out.

**We recommend that**

- 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. *(H)*

### 7.2.9 Organizational development and capacity building

At the Asia Pacific Zone office the department for Corporate Affairs includes the unit working with organizational development (OD) and capacity building. Previously in the region, the Pakistan office was in charge of the OD support, and as from 2007 when the Asia Pacific Zone office was established, the OD function moved to the Zone office. There are three (3) staff members working with OD at the AP Zone office.

The capacity building function within the Federation is harmonized in order to enable that all members can work together and to strengthen the National Societies. There are different resource groups to support national societies from zone, regional and country offices.

Discussions are held on a continuous basis with the different National Societies in the region, in order to identify the need for support. A request sometimes comes from NS and, at other times, the IFRC push for increased support regarding various areas. The head of delegation has the responsibility to follow up and assess compliance with the “Statues of the Movement”.

According to the Constitution (Article 10) in terms of integrity and compliance, the National Societies and constitutional bodies of the International Federation are expected to comply with the applicable integrity policies adopted by the General Assembly and the National Societies are expected to also comply with the duties of National Societies as set out in the Constitution. Any failure to comply with the policies or duties will be considered a breach of integrity and shall be referred to the Compliance and Mediation Committee.

In the “Strategy 2020”, one of the activities aimed at enabling the overall objectives is to build strong National Red Cross and Red Crescent Societies. In order to facilitate these activities, a specific self-assessment tool has been produced called OCAC (Organizational Capacity Assessment and Certification). This assessment tool was distributed throughout the organization during 2011 and is now being implemented. Before the OCAC tool was introduced, there were other assessment tools and formats
which were implemented, however, these tools have been subsequently further developed and made coherent within the Movement.

The OCAC process is divided into two phases. The first phase is a self-assessment and a total of 94 attributes (whereof 11 attributes refer to finance) are evaluated on the basis of five (5) statements representing different levels of proficiency/development for each attribute/competence based on a number of indicators. This phase is undertaken through several workshops with facilitators. The assessment covers all personnel levels within the organization. After the first phase of the assessment is completed, a tailor made action plan is agreed upon addressing identified deficits and weaknesses. A second phase is carried out based on a peer review and this aims to follow up on impact. The aim of the second phase is to validate the first phase, focusing on organizational performance, choice of programs, quality, etc. The final step in the OCAC process is acknowledgement and certification. A report is produced and the National Society is the owner of the report. The report is submitted to the Head of Delegation in the Zone for follow-up.

The AP Zone has set up a roll-out plan for the OCAC process to be implemented within the region, applying to a total number of 37 countries in that region. As per 2013, two countries, National Societies, had conducted the OCAC process, Afghanistan and Bangladesh. For 2014, the plan is to roll-out the process to an additional eight (8) countries through the National Societies.

The support for financial development to National Societies within the region is carried out by respective regional offices in each sub-region, and by the AP Zone finance unit (ZFU). The IFRC country delegation work closely with the National Societies and provides regular support.

The cost of implementing the OCAC process is covered by the IFRC in Geneva. The approximate cost for implementation of the OCAC process is 20,000 CHF.

Our assessment is that the Movement has decided to use the self-assessment according to OCAC as a tool to develop and strengthen the organizations, according to the aims in the “Strategy 2020”. However, we note that it is not compulsory to implement the OCAC process within the National Societies. We also note that there is limited funding and resources for the implementation and follow-up on actions to be taken in order to subsequently strengthen organizational development.

Reports from OCAC self-assessments are not public and are owned by the National Society. We have not been presented with a copy of any report based on the OCAC process, which is the reason we have not been able to assess the general outcome and specific development plans. It is not clear to us how the outcome is taken forward and how resources are allocated in order to improve the capacity of the National Societies.

We recommend that

- 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. (M)
• 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. (M)

• 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. (M)

7.3 IFRC – Zone office Nairobi (Africa Zone)

7.3.1 Registration and organizational structure

The Africa Zone was comprised of the Africa Zone Office, 5 regional offices, Dakar (Sahel), Yaoundé (Central Africa), Abidjan (West Coast), Gaborone (Southern Africa) and Nairobi (Eastern Africa) and 8 country offices in 2012, which, in turn, support 49 African National Societies. The broad objectives address IFRC business lines to help raise humanitarian standards, strengthen National Societies, and deepen the Red Cross Red Crescent’s tradition of togetherness. It also provides technical assistance to services in disaster and crisis management and sustainable development.

The year 2012 was dominated by the transition of the Africa Zone Office (ZO) from Johannesburg to Nairobi and Addis Ababa. By Q4 2012, the necessary staffing had been completed, resulting in greatly expanded capacities and stabilized structures, providing a solid base for the future. In addition to strengthening itself, the Africa ZO coordinated, or directly implemented, activities designed to build capacities and achieve the LTPF objectives.

At the ZO in Nairobi there are 25 employees with a Director, who, as an officer, has the ultimate responsibility for the office. The ZO is represented at three different locations in Africa, in Nairobi, Addis Ababa and Dakar. The finance function at the ZO in Nairobi is comprised, in addition to the Zone Finance Manager, of two Finance analysts and a Finance Assistant. A further two Finance analysts and a Finance Assistant are located in Dakar and handle, primarily, the French speaking countries.

In relation to the Legal status for the IFRC to act in a specific country, a Status Agreement is entered into between the IFRC and the local authority/government in respective country, signed by the Secretary General. The agreement is the legal base for the Federation’s operations and entitles immunity and tax exemption. We have reviewed the Status Agreement concerning the Legal status of the Regional Delegation for Eastern Africa of the International Federation in Nairobi, signed 2 December 1993 by the Ministry of Foreign Affairs and the Head of Delegation, Nairobi Delegation.

In the Africa Zone, IFRC has legal status agreements in 17 countries and is in the process of signing in another two.

Our assessment is that the ZO is relatively new and they are still working with the structure and roles. The fact that the ZO and RO are located in the same city and the same premises implies some concerns in terms of roles, etc.
Agreements and segregation of duties

Agreements

The overall structure of agreements is described in section 6. Regarding the Africa Zone, the scope was to review the ZO and NS in Sudan. We have chosen to review the largest project funded by Sida and implemented by the NS in Sudan, which is The National Community Health Volunteers Program (NCVHP). We have reviewed the project in terms of agreements, reporting, follow-up and cash transfer transactions.

The NCVHP in Sudan, funded by Sida through the IFRC, is implemented in 12 out of the 15 states in Sudan and the SRC is funding the work in 7 states by 7 different branches. The program started in 2007 and addresses basic health care needs in the targeted communities and empowers people to take care of their own health. Some 30,000 – 35,000 volunteers have been trained within the project and beneficiaries reached during 2012 total 194 276 (according to the narrative in annual report of the program 2012). The project is funded by the SRC through IFRC and bilaterally by the Canadian (2 branches) and Norwegian (4 branches) Red Cross.

The framework agreement regarding the co-operation between the IFRC and the SRC 2012, together with the signed cash pledge, regulate the co-operation between the parties.

Prior to signing the pledge, the details of the pledge are sent to the respective Project or Appeal Manager in order to obtain her/his written approval. All pledges should also be sent to the ZFM for validation prior to being signed.

We have studied the Cash pledge regarding Sudan – long term Cooperation for 2012, which was prepared in June 2012 between SRC and IFRC. The original Cash pledge amounted to SEK 2,125,950 but was subsequently revised two times and finally amounted to SEK 2,750,000 divided between the following two projects. The Cash pledge was signed by the Head of the Programme Unit, SRC and IFRC Country Representative, Sudan. The final revision of the budget took place via e-mail.

<table>
<thead>
<tr>
<th>Year 2012</th>
<th>SEK</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health NCVHP, project PSD005</td>
<td>2,000,000</td>
<td>267,033</td>
</tr>
<tr>
<td>Sudan Delegation, project PSD018</td>
<td>750,000</td>
<td>100,138</td>
</tr>
<tr>
<td>Total SEK</td>
<td>2,750,000</td>
<td>367,171</td>
</tr>
</tbody>
</table>

For 2013, there are two Cash pledges prepared, one for SEK 2,495,082 and one supplementary for SEK 975,917. These also refer, in addition to the above two projects, to Human Diplomacy and National Society Development.

Segregation of duties

The Finance Unit at the ZO has the following primary duties:

1. Reporting, validation of all financial reports, standard pledge reports, non-standard pledge reports, interim reports, final reports, appeal based reports

2. Monthly closing check of balance sheet, expenditures and movements of funds of CO. All original supporting documents are sent from the CO to the Zone for review and validation
3. Cash Request Analysis, validation of all cash requests from Region, CO and NS in countries without a CO

4. Budgeting, validation of budgets prepared in the CO. When the budget is approved it is uploaded in FedBud.

5. Advisory role, support to the CO

6. Visiting the various IFRC offices in order to ensure that the IFRC routines and procedures are complied with

The RO and CO make cash requests which are sent to the ZFU. These requests stipulate the unit’s requirement for funds during the forthcoming months. The cash requests are specified according to the requirement of each project and also report on the Annual Pear Ceiling and Budget Available. Based on this analysis, ZFU assesses the funds which are possible to be paid out. The payment approval is then sent by the ZFM to the Geneva office who subsequently effects the payment. The ZFU does not manage cash or bank accounts. Payments referring to local expenses for the ZO, such as salaries to local staff, rent, etc., are executed by RO.

We have reviewed Request for the Payment – Transfer to Delegation and Cash Request Analysis regarding the CO in Sudan 2012 and 2013.

Our assessment is that in our review of Requests for Payments 2012-2013, cash referring to NCVHP has not been requested during 2012 and on only one occasion in 2013, in an amount of TSEK 450. This indicates that funds can be requested for a given project but used in another one. This implies a risk that the control mechanism in ZO can, at least temporarily, be sidestepped.

We have also requested a monthly closing checklist as regards the Balance Sheet which we will review as regards the CO in Sudan, but we have not received this checklist. Consequently, we cannot provide a statement as to whether these monthly closings are executed according to the established procedures. ZFU can provide this only with a clearance from Audit & Risk Management Department in Geneva.

The original supporting documents regarding the NCVHP project which are sent to ZO in Nairobi for review and validation are all in the Arabic. As Arabic is one of IFRC’s four official languages, no translation has been made of the document, which would, otherwise, have been a requirement. As none of the personnel at ZFU can read Arabic, our assessment is that the underlying documentation will not be reviewed by ZFU. However, the supporting documents have been reviewed by the CO in Khartoum.

We recommend that

- ZO ensure good internal control regarding the review and validation of the original supporting documents in the Arabic language. (M)
- 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. (H)
7.3.3 **Bookkeeping and accounting**
The bookkeeping and accounting are managed by the RO.

7.3.4 **Disbursement routines (cash and bank)**
The ZO does not manage cash or bank accounts. Disbursements concerning expenditures in the ZO are managed by the RO and disbursements to the CO are managed by Geneva.

The finance staff at the ZO is responsible for the follow-up on WA transferred to NS in countries with a CO. The funds are transferred from the Geneva office to the CO after approval by the ZFM. The funds are, then, transferred from the CO to the NS after approval by the Country Representative.

7.3.5 **Procurement**
We have interviewed the logistics coordinator of the ZO. The logistics department of the ZO does not make any procurement but are more of a policy driven unit and analyse were to locate warehouses, etc.

The responsibility of Zone logistics is to make sure that the procurement policy is complied with in the region. The logistics coordinator visits National Societies every year to assess and train. An assessment of Sudan will be made in 2014.

7.3.6 **Audit**

**Internal audit**
There is no internal auditor allocated to the African Zone.

*Our assessment is* that external independent audits of projects are only made when required by the donor. The statutory audit is made from Geneva and the auditor requests documents regarding projects/countries on a test basis. Internal audits are made but the reports are considered internal documents which IFRC does not share.

**External audit**
For information regarding the IFRC procedures for external audits, see section 7.

Projects are audited by an independent auditor if requested by the donor. Below is a list of the external audits carried out in the African region during the period 2008-2013.
### Risk management and anti-corruption

Finance staff from all of the Country Offices attended Risk management training in Mombasa in October 2013 held by the ZO. The training was conducted by Finance staff from Geneva. A risk register is under draft and presently in Geneva for review and assessment. The idea is that all departments in the ZO, RO and CO are to produce their own risk register.

The staff does not sign the fraud and corruption policy but they do sign the Code of Conduct which includes a section regarding fraud and corruption.

Our assessment is that the ZO is implementing risk management and anti-corruption in the Zone. However, the training in 2013 included, for the most part, finance staff. A risk register is not yet completed and it includes only the financial aspects. Risk management has not been a focus area and there are still lots of work to be done. We have not been presented with a plan for implementing procedures for risk management.

According to staff at the Zone, they have experienced few cases of fraud and corruption. Our observation is that there are no clear guidelines as to whom to report...
to when suspicions and irregularities arise. We have not seen any documentation on investigations from cases that have taken place.

We recommend that

- Training on anti-corruption and fraud forms part of the training of new employees. (M)
- The risk registers are finalized and an action plan has been developed which includes all departments in Zone, Region and Country offices. (M)
- IFRC establish and implement clear guidelines as to whom to report to when suspicions of irregularities arise. (H)
- Documentation regarding investigations of fraud and corruption be correctly filed. (H)

7.3.8 Reporting and follow-up

We have interviewed the PMER (planning, monitoring evaluation and reporting) of the ZO regarding reporting and follow-up. There are three staff members working with PMER at the ZO.

The role of the PMER at the ZO is to inform about new guidelines and strategy, while the role of the PMER at the RO is to provide technical support and quality assurance. The Zone PMER is responsible for the approval and validation of the narrative reports and Zone finance of the financial reports.

The financial reports are based on 5 overall Business Lines. The 5 Business Lines are:

- Raise humanitarian standards
- Grow RC/RC service for vulnerable people
- Strengthen RC/RC contribution to development
- Heighten influence and support for RC/RC work
- Joint working and accountability

The business lines can be further broken down into subsectors. There is no requirement of reporting on subsectors according to the agreement between SRC and IFRC. The only requirement is that more funds should be spent than received.

The reporting requirements are stated in the pledge. The donor specifies the level of reporting in the pledge, business level, sector/subsector or location. The donor can request additional reporting requirements. The additional reporting requirement implies that a pledge-specific charge will apply.

The reporting requirement regarding the NCHVP project in Sudan is as follows:

2012

- Standard Interim financial and non-standard narrative report
- Standard Final financial and non-standard narrative report
- No requirements of reporting on sectors/subsector
2013
- Standard Interim financial and non-standard narrative report
- Standard Final financial and non-standard narrative report
- Requirements of reporting on sectors/subsector

Our assessment is that the requirement of reporting on sector/subsector from 2013 considerably improves SRC’s possibility of the follow-up of the funds.

We have not been able to verify the validation of the conformity of the narrative and financial information. The validation of the information is made separately by two different units.

We recommend that

- SRC require reporting specified according sub-sectors to ensure that funds are spent in accordance with the plan. (M)

7.4 IFRC – Regional delegation Nairobi

7.4.1 Registration and organizational structure

The RO situated in Nairobi is one of 5 regional offices in the Africa Zone. The RO is not a legal entity in Kenya but constitutes part of the governing body in Geneva. The Eastern Africa Regional Representation in Nairobi includes 34 employees and shares premises with the ZO. The Head of the Region Office is the Regional Representative and the departments are:

- Programme (17 staff)
- Support Services and Finance (14 staff)

The RO is an operational office and its role is to look at programming in the region, create knowledge sharing and regional networking. See organogram in Appendix 4.

Regarding the Legal Status agreement, see section 6.1.

7.4.2 Segregation of duties

The Federation has established a Procedure for Expenditure authorization. The purpose of the Procedure is to set out the conditions to be met to ensure that all expenditure incurred by the Federation is necessary expenditure, that it is supported by proper documentation, correctly coded and approved. This also establishes the different levels of authority for different types of expenditure.

For cost centres, expenditure can only be made against an approved expenditure budget, i.e. the balance of the approved budget less actual expenditure to date. No expenditure can be authorized above the level of the approved expenditure budget or in a period for which an approved budget does not exist.
For projects, in addition to an approved expenditure budget, an approved expenditure ceiling must also be in place for the project in question. Refer also to the Project Budgeting and Project Expenditure Approval (PEAR procedure) procedures. In addition, expenditure on projects cannot be incurred until the relevant budget has been included in an approved appeal.

A manager is to be assigned to every cost centre and project. The manager is the only individual who can authorize expenditure on their cost centre or project. Equally, the manager is the specific individual responsible for ensuring that expenditure does not exceed the approved budget balance nor that it exceeds the specific budget groups. A manager can delegate authority for authorizing expenditure on his/her cost centre or project. All authorizations by a manager require the co-signature of the finance personnel in the Delegation, Zone Finance Unit or Secretariat.

**Signatories bank accounts**

Treasury Service in Geneva prepares and sends an official letter to the bank in question requesting the opening of account(s) and providing the names of the authorized Delegation/Office signatories. Four individuals, of whom two jointly, are authorized to sign the bank account. None of these individuals belong to the Finance Department.

*Our assessment* is that the authorization and delegation routines are clear and well-adapted for the operations of the organization.

### 7.4.3 Bookkeeping and accounting

RO Finance uses the IT-systems as described under section 5.

The transactions for a given month are registered on an ongoing basis and posted into the CODA system by the Senior Finance Officer at the end of the month. A separate checklist has been established for monthly reconciliations of the balance sheet, forecasts and documents to be checked. The reconciliation is signed by the Chief Accountant and HoD. We have, on a test basis, reviewed monthly reconciliations of petty cash and bank accounts.

Forecasting of cash flow is a part of the monthly closure procedure. Once a month, the RO requests funds from the Geneva office. The calculation of the total cash requirement includes WA to NS, different projects at the RO, as well as expenditure in the RO and the ZO. The ZFM validates the cash requests and sends them to the Geneva office by e-mail.

Shared office and services costs are calculated in conjunction with the budget process. This amount is allocated to the total staff (restricted, unrestricted and PNS) using the office and is, on a monthly basis, charged to the respective employee’s project codes.

We have reviewed supporting documents for expenditure within the PMER project, funded by Sida, for two months during 2013. The audit objective was to confirm whether the approval had been made by authorized personnel, whether the expenses were reasonable, fully supported and within budget and that requests for working advances had been approved and accurately accounted for and fully supported.
Our assessment is that the accounting material is of good quality, in good order and that accounting complies with generally accepted accounting principles. Amounts are approved by authorized individuals and are within permitted expense limits, see however, our comments under the next point.

A payment requires a number of signatures. We have noted that if the same individual is to sign a number of times, as they represent more than one function, then, often there is only one signature.

We recommend that
- RO ensure that requests for payment are signed by all relevant signatories prior to payment being made. (H)

7.4.4 Disbursement routines (cash and bank)
The RO Finance Department handles all payments referring to RO, ZO and to NS in the countries in Eastern Africa where there is no CO. The Finance Department is comprised of 4 personnel, a Chief Accountant, Senior Finance Officer and two Finance Officers.

Petty cash
According to the IFRC’s banking and currency procedure only the Head of Delegation/Office has the authority to operate petty cash accounts but may delegate this responsibility to the Finance Officer. A maximum and minimum amount or petty cash to be held at any time should be established by the Head of Delegation/Office. The amount should be set at the lowest level possible required to ensure that the Delegation/Office is able to meet its cash payment requirements, whilst minimizing the risks of holding cash.

Cash is kept in a safe which must be opened by two individuals.

We have reviewed the general ledger petty cash account in KES and in USD for 2013 in order to confirm that the regulation is complied with.

Monthly Subsistence Allowance
A Monthly Subsistence Allowance (MSA) is paid to delegates on mission based on a preliminary plan. After the end of the month, a MSA control sheet is presented which reports the actual outcome and any possible adjustments. If the delegate has travelled during the month, this is to be supported by travel documents. The control sheet is authorized by the responsible manager. MSA will no longer be applied after the end of the year.

Working advance to employees
Procedures for Working advances to employees have been established. Amongst other things, advances are to be reported on no later than the 25th of the month and
new advances are to be issued only after the old ones have been reported and cleared. Working advances to employees are booked as receivables with one sub-account per employee.

We have reviewed the Working advances on a random sample basis with the aim of ensuring that the above regulations are complied with.

**Working advance to National Society**

The RO is responsible for the review, disbursement and monitoring of WANS in countries where there is no CO. WA to NS amounted to CHF 287,180 as at 31 October 2013, of which CHF 276,210 refers to the Tanzania Red Cross. In Tanzania, there are 13 programs for which the advances are not fully reported. These payments of WA have taken place during 2008-2013, but further payments have now been stopped and the handling of this issue is at RO management level.

Payment of WA is preceded by a request from NS to PM at RO. If everything is in order, a Request for payment is prepared by PM. The Request for payment – transfer to NS is authorised and validated by various individuals depending on the amounts to be disbursed.

**Payments**

We have selected payments for the months of September and October 2013 regarding the PMER project to verify the accuracy of payments.

The audit objective was to confirm:

- Whether approvals are undertaken by authorised personnel
- That expenses are reasonable and within the budget
- That requests for working advances were approved and that the working advances were accurately accounted for and fully supported
- That the amount paid is fully supported by requisitions, LPOs, invoices, payments requests/receipts and delivery notes, when applicable

All expenses must be approved by the budget holder, the Regional Representative for payments between January - September and by PMER Manager for payments after September 2013. The review was executed without exceptions.

**Salaries**

We have interviewed the senior Human Resources Officer at the RO regarding the handling of employment contracts and staff.

All contracts, apart from secondments, are issued by Geneva. The contracts regarding secondments are issued by each NS.

Time sheets are used to report overtime. The planned working hours are most often charged a specific project or sometimes divided on the basis of a percentage and then charged to the various projects. All staff and consultants sign the Code of Conduct and IT-policy when signing the employment contract.

We have reviewed five contracts and the payroll for two months during 2013. The contracts were reviewed with the purpose of ensuring that employees are under contract, to ensure whether requests for staff were authorized and approved and to ensure whether employee contracts were authorized and approved. The payroll was
reviewed with the purpose of ensuring that the payroll is being prepared and approved by the relevant authorities and to ensure that salary transfers to employee accounts reconcile with the payroll detail.

The reviewed contracts are all preceded by a staff request and accurately approved by the Regional Representative. All of the employees tested had approved contracts and the amount as per the contract agreed with the payroll.

The reviewed payrolls were prepared by the HR Officer and accurately approved by the Regional Representative. The only exception was that the approval date was not indicated on the September payroll. We could not, therefore, confirm whether the transfer was executed after or before the approval of the payroll.

The remittance of PAYE (Pay as you Earn) has been reviewed without exceptions. The PAYE is income tax levied on employee’s gross taxable income as per the government graduated scale. PAYE for IFRC employees is automatically computed by the system and the total amount is remitted to the government in conjunction with the payment of the salaries at the end of the month. As per government regulations, PAYE must be remitted by 9th of the following month.

*Our assessment is that;*

- Certain individuals authorize their own costs and advances. Regulations regarding this area are currently being prepared.

- The regulations for WANS are not complied with in full as WA to NS in Tanzania remains unsettled.

- The KES cash account has exceeded the limit during 15 days on certain occasions, while the USD cash account was in excess of the limit on 5 occasions, for 7 days or more. According to Finance, this is due to the fact that they have large, expected expenses in the form of workshops or request for working advances. Furthermore, they have received an inflow of funds due to the fact that they have sold documentation to companies wishing to make bids.

- WA to delegates and local staff are reported, to a large extent, in the same month in which they are paid out. However, exceptions to this rule arise when new advances are paid out and are not reported according to the time schedule stipulated in the regulations. Finance sends, on a quarterly basis, statements to personnel who have outstanding balances. As per 31 October 2013, the receivables with delegates and local staff totalled CHF 31,863.

*We recommend that*

- Regulations regarding the approval of employees own expenses be implemented. (H)

- IFRC strengthen the procedures for the monitoring and control of WANS in order to ensure that agreements are complied with in terms of reporting. (H)
7.4.5 **Procurement**

We have been interviewing the Head of Support Services, who is also the Head of the Logistics and procurement department, regarding the procurement process of the RO.

The Logistics and procurement department consist of the Head of Support Services, one Logistic Officer, one Fleet Office with a technical line with Dubai and one driver. The Global Logistic Office in Dubai deals with all vehicles. All vehicles are leased from Dubai. The NS are obliged to procure vehicles through the Dubai department if the funding is through IFRC.

The majority of the procurement is undertaken by the National Societies. If the National Society is funded through IFRC, they are obliged to comply with IFRC’s procurement policy. As regards other funding, they are allowed to use their own procurement policies. The routines regarding procurement made by National Societies are documented in section 6.5.

The procurement routine of the Regional Office is as follows. Every two years a pre-qualification of suppliers is made in October. The Support Services identify different categories. The interested suppliers buy a pre-qualification document and then submit tenders including terms and conditions and a supplier’s questionnaire with general information. The tenders are analyzed and a pre-qualification form is filled and all suppliers are rated. The suppliers are, then, entered into a Supplier’s database (excel) within their category. The purpose of the pre-qualification procedure is to get to know the suppliers and to have a base of suppliers who can provide quotations.

When an actual procurement arises, a tender is sent to at least three pre-qualified suppliers. The tenders are analyzed in a CBA. In case of advanced procurement, such as medicine or consultants, the suppliers must present their tender.

The CoC-members sign all tenders and an individual assessment is made. The assessments are discussed and a protocol made of the discussion.
During the review, a sample test of five procurements was carried out in order to ensure compliance with rules and regulations and assess documentation and supporting documents. The list of sample tests is shown below:

<table>
<thead>
<tr>
<th>PBN</th>
<th>Item</th>
<th>Amount</th>
<th>Currency</th>
<th>Exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>14651</td>
<td>APC UPS</td>
<td>214,650</td>
<td>KES</td>
<td>None</td>
</tr>
<tr>
<td>14924</td>
<td>Watsan Kit</td>
<td>33,252</td>
<td>CHF</td>
<td>None</td>
</tr>
<tr>
<td>14925</td>
<td>Shipping relief items</td>
<td>16,663</td>
<td>USD</td>
<td>None</td>
</tr>
<tr>
<td>14935</td>
<td>Cotton panties</td>
<td>560,000</td>
<td>KES</td>
<td>*)</td>
</tr>
<tr>
<td>15049</td>
<td>Blankets and tents</td>
<td>7,964</td>
<td>USD</td>
<td>No CBA</td>
</tr>
</tbody>
</table>

*) The least expensive supplier was not chosen and the reason for this is not clear. A verbal explanation has been provided.

Our assessment is that the procurement policy is complied with to a major degree. The RO have very few tenders during a given year. We have reviewed 7 procurements, 2 tenders and 5 quotations. The 2 tenders and protocol were reviewed without comment. The five quotations were reviewed with the following remarks; for one procurement, the reason for not choosing the least expensive supplier was not clear on the CBA and for one procurement reviewed we could not find a CBA.

**We recommend that**

- IFRC ensures that the conclusion on the CBA is clearly indicated in order to guarantee compliance with rules and regulations. (M)
- IFRC ensures that NS follow the IFRC's procurement policy as regards purchases funded through IFRC. (H)

### 7.4.6 Audit

See section 7.3.6.

### 7.4.7 Risk management and anti-corruption

See section 7.3.7.

### 7.4.8 Reporting and follow-up

The reporting requirements are described in the pledge. Regarding the NCVHP in Sudan, the reporting requirements are interim financial and narrative reports and final financial and narrative reports. The requirements changed between 2012 and 2013. The reporting requirements for 2013 are on subsector/sector which provides more detailed reporting.

The RO PMER receives the reports from the CO/NS and supports with technical assistance regarding the narrative report. Financial reports are reviewed and validated by the ZO. In countries where there is no CO, the RO PMER assumes the role of the CO and assists with the narrative reporting.
The RO PMER is also involved in developing and verifying the overall governing documents, such as:

- the LTPF, the Long Term Planning Framework,
- the DoP (Development of Operation) which is a yearly activity plan for the National Society including a budget on business level

Our assessment is that the RO PMER is involved in the reporting process. The role is not to verify the reports but to provide support to the CO’s and NS’s in producing the reports.

7.5 Country Office – Khartoum, Sudan

7.5.1 Registration and organizational structure

The role of IFRC´s Country Office (CO) in Sudan is representation, facilitation and coordination based on the needs of the National Society (NS).

The CO is not a legal entity in Sudan. IFRC’s normal procedure is to have an agreement with the government of a country establishing IFRC's legal status in that country. IFRC does not have a Status Agreement with the Sudanese government but the process to secure such an agreement has been initiated.

The Country Office consists of 4 delegates and 7 local staff. The 4 delegates are employed by Geneva and the 7 local staff is employed by the CO. The CO shares premises with NS. See organogram in Appendix 3.

We recommend that

- IFRC make sure to pursue a Legal Status Agreement for Sudan, in order to ensure legal status in relation to procurements and logistics. (H)

7.5.2 Agreements and segregation of duties

Agreement

A Letter of Agreement is signed for each project.

Letter of Amendment/Agreement for the National Community Health Volunteer Program (NCHVP) in Sudan has been established between the CO and the NS. The NCHVP project is undertaken in 7 (2013), respective 4 (2012), of the NS branches in Sudan. The Agreement is signed by the Country Representative and the Secretary General of the NS. We have received the Letter of Agreements regarding 2012 and 2013. The amendments are produced annually and the operational budget totals CHF 260,971 for 2012 and CHF 372,235 for 2013. The agreement stipulates, among other things, the following:

- The project starting date shall be 1 January and the project ending date shall be 31 December,
- The funding shall be made available by the Federation in accordance with the Procedures for Working Advances to National Societies,
• Technical narrative interim and financial interim reports shall be provided to the CO every three months,

• Final technical and final financial reports shall be provided on or before 31 January,

• A first WA of 20,000 shall be transferred to SRCS and this will take place once the NS has reported at least 75% of the previous WA. WA will, subsequently, be transferred according to the NS field returns (Letter of Agreement 2013),

• A first WA of 50% of the received pledge and 50% for the second. Once the NS has reported at least 75% of the previous WA, a subsequent WA will be sent according to the NS field returns (Letter of agreement 2012),

• The IFRC’s Terms and Conditions for Project Support to National Societies, Project Budget, Procurements Procedures, Narrative Monitoring and Report Formats and Finance Formats are attachments to the Letter of Agreement.

**Segregation of duties**

Treasury Service in Geneva prepares and sends an official letter to the bank in question requesting the opening of account(s) and providing the names of the authorized Delegation/Office signatories.

Expenditures within the project are authorized by the Project Manager in accordance with the Federation’s regulations.

*Our assessment is* that agreement is established between the parties as regards the NCVHP. During the review, we observed that all of the requirements in the Letter of Agreement had not been complied with. The most important deviations are that transfers of funds have not been reported to CO as stipulated in the Letter of Agreement, prior new transfers being made.

**We recommend that**

• 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 (H)

### 7.5.3 Bookkeeping and accounting

Reporting back of WANS from NS to CO takes place in Excel with the recording of an entry date, voucher number, description, project, branch, income, expenditure and balance. Each financial report is numbered in a series and signed by the Accountant Assistant, Project Accountant, Chief Accountant and Finance Manager in NS. The original supporting documentation is attached. The Financial Report is initially reviewed by the CO Federation Programme Coordinator and the CO Federation Project Manager. As required, questions are also presented to the responsible Programme Officer in NS. After this, the Federation Finance Officer checks to ensure that the supporting documents are adequate and these are then entered in CODA.
Reporting takes place each month to the ZO in Nairobi. These reports contain signed reconciliations of the cash accounts, bank accounts (USD, CHF, and SDG). A CODA Delegation Processing and Checklist is prepared stipulating the items to be reviewed. Outstanding WANS at the end of the month are booked as a cost under a special account, “Operational Provisions” in order to clarify what amounts have been disbursed but which have not yet been re-reported by NS. The original supporting documents for WANS are sent to ZO Nairobi. At the end of the month, a forecast is also prepared for the next two months. The forecast and a cash request are sent to the ZO in Nairobi for approval.

We have reviewed, on a test basis, monthly reconciliations of bank accounts, without remarks. We have reviewed all verifications regarding the NCHVP, including supporting documents for two months, without remarks.

Our assessment is that as none of the staff at ZFU can read Arabic, the supporting documentation from NS will only be reviewed at the CO.

We recommend that

- IFRC ensures COs independence from NS and the staff’s qualifications as the only review of documents in Arabic is made by the CO. (M)

- The CO makes sure that NS submits the reports and supporting documents on time. (H)

7.5.4 Disbursement routines (cash and bank)

Payment to NS is made via bank transfer.

Payment to NS is made on the basis of a written Cash request for NCHVP from NS, which is signed by the Finance Director. The Cash request is supported by:

- A Working Plan for the Cash Request containing the budget specified according to activities and branches,
- The Letter of Agreement for the NCHVP
- The annual budget for the NCHVP

A request for Payment is prepared, which first has to be approved and validated by the Federation Project Manager and the Federation Finance Officer. Authorization & Validation implies that the coding is correct, the budget is approved, the available balance of the approved budget is sufficient and that supporting documentation is valid. When the Request for Payment is approved, payment is made in CHF to a bank account in CHF at NS. Thereafter, the funds are transferred to NS to a bank account in local currency, SDG. The payment is booked as a receivable against NS with a project code. The receivable against NS is partly in CHF for the funds which have not yet been transferred to the local currency account and partly in SDG. CO receives a copy of the Debit Note from the NS Bank.

We have reviewed disbursement during 2012 and 2013 to NS on a test basis.
Our assessment is that:

- The first payment to NS in 2012 took place in July and in 2013, in April, primarily due to the fact that the cash pledges were signed in June of 2012 and in May 2013. The late disbursement makes it more difficult for the NS to carry out activities in a timely manner and in accordance with the work plan. The branches with financial strength are, however, beginning to implement activities prior to the funds being disbursed by the CO. Other branches borrow funds and in the branches with more limited financial strength, no activities, or only inexpensive activities, are executed prior to the first disbursement.

- Cash requests from NS to CO take place twice a year according to the 6 month work plan and not in accordance with the agreement established between the parties, see section 7.5.2.

We recommend that

- Sida and SRC review the possibility of signing the yearly agreement at an earlier stage in order to facilitate the disbursements to NS. (M)

- The disbursement of funds takes place according to the agreement. (H)

7.5.5 Procurement

We have interviewed the Logistics Administrations Officer of the CO regarding their procurement process. While the CO adheres to IFRC’s procurement policy, we have noted that the logistics file including the logistics guidelines and standards is not updated with the latest version of the procurement policy. However, the number of procurements made by the CO is very low.

Procurements amounting to 50,000 CHF are allowed to be made by the CO. If the procurement exceeds 50,000 CHF technical support from Regional Logistics Unit is required and procurements exceeding 400,000 CHF require approval from Geneva.

The CO does not undertake procurements exceeding 50,000 CHF on their own account but, on rare occasions, on behalf of the NS.

The CO has made only two procurements during 2013 which have been reviewed without remarks. The procurement policy does not apply to the procurement of travel services. The same supplier has been used for a long time and we have not verified any documentation on this. The reason procurement is not applied to travel services is that the Travel Agents in Sudan are paid a commission by the airline and, therefore, the CO, as a client, does not pay anything to the Travel Agent other than the actual fare or cost of the ticket.

The original procurement documents are sent to the ZO and constitute supporting documentation for the payments. Copies of the procurement are kept in a file at the CO.
Our assessment is that the procurement policy is complied with in all respects except as regards travel services. Regarding travel, the same supplier has been used for a long time and no procurement process is undertaken.

We recommend that
- The supply of travel be subject to the procurement process according to IFRC’s policy. (H)

7.5.6 Audit

External audit
See section 6.

Internal audit
An internal audit of the CO was undertaken in November 2013 and before that in 2008. The document is considered an internal document which IFRC does not share.

Our assessment is that the external independent audit is only made if the CO is chosen as a spot check by the auditors in Geneva. We have not been able to assess the internal audits.

7.5.7 Risk management and anti-corruption

The CO adheres to IFRCs policy on corruption and fraud. We have discussed the matter with the country representative and they work continuously with the issue but not in a structured manner.

The Finance Officer and Finance Assistant attended the risk management work shop organized by the Zone office in Mombasa 2013. According to the CO, the majority of the issues discussed during the training were practical issues that were dealt with at the workshop and, therefore, there was no pending action to be taken post workshop. No action plan has been prepared in writing but there is a dialogue between the CO and Nairobi.

A Risk Register is prepared for all development programs in a participating manner with the NS. We have reviewed the Risk Register regarding the NCHVP 2013 which is included in Funding Proposal.

Our assessment is that there are still areas to further develop in terms of Risk Management and training in fraud and corruption in regards to development of a risk register.

We recommend that
- A risk register for the CO and action plan be developed, see further section 7.3.7. (M)
7.5.8 Reporting and follow-up

We have interviewed the National Program Coordinator (NPC) regarding narrative reporting and follow-up. The NPC supports the NS with technical competence and assists in implementing the activities. The supervisory role of the NCP is to visit the branches and field and to monitor and follow-up on performed activities and to see to that they are in compliance with the Log Frame. The NPC writes a field report after each field visit which is submitted to the Country Representative.

The narrative reporting initiates with the volunteers reporting to the Field Team Leaders in the seven different branches. The branches then report to the HQ of the NS (in Arabic) in Khartoum. The role of the NPC is to verify the accuracy of the report and to assist in translating it into English. When the report is completed it is sent to the Country Representative for validation and is then sent to the Regional Office and to the donor (in this case the SRC).

We have not seen any proof of validation of the narrative report against the financial report.

Financial reporting

When NS reports back, the Project Manager and the Project Coordinator verify that the expenditure is allocated to the correct project, that the expenditure is approved within the budget and that it is in compliance with discussions between NS and CO. The CO Finance staff review the underlying documentation. The Project Coordinator is responsible for follow-up against budget.

Financial reports are generated automatically on a monthly basis from the system and are sent to the Project Manager. No financial reports are sent from CO to NS.

We have reviewed the financial reporting from the NS to CO.

The following table describes opening balance, income, expenditures and closing balance year 2012, regarding the NCHVP project, in CHF. The table shows that expenditures reported from NS amount to CHF 104,183 and yet to be reported WA amounts to CHF 132,422.

<table>
<thead>
<tr>
<th>Movements of funds 2012</th>
<th>Health &amp; social services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>29,788</td>
</tr>
<tr>
<td>Income</td>
<td>273,394</td>
</tr>
<tr>
<td>Expenditure 2012 reported from NS</td>
<td>-104,183</td>
</tr>
<tr>
<td>IFRC Expenditure summary 2012</td>
<td>-2,197</td>
</tr>
<tr>
<td>Fees (Pledge rep fee and PSSR)</td>
<td>-13,641</td>
</tr>
<tr>
<td>Currency revaluation</td>
<td>38,788</td>
</tr>
<tr>
<td>Expenditure 2012 reported from NS 2013</td>
<td>-132,422</td>
</tr>
<tr>
<td>Closing balance</td>
<td>89,527</td>
</tr>
</tbody>
</table>

Funds regarding budget 2012, were fully reported on in March 2013. The expenditures, CHF 211,549, occurred in 2012 but were reported back to CO during January - March 2013. The table below shows the closing balance 2012 of the project in which the reported amounts in 2013 have been taken into account.
Our assessment is that the CO does not comply with the agreement between CO and NS regarding required reporting prior to the next disbursement. The disbursements to NS are made biannually to be able to follow the activity plan. The reporting from NS is often delayed due to several reasons, for example, the late first disbursement from CO. However, some of the branches initiate the implementation of activities prior to the first disbursement by borrowing from other projects or branches.

- The agreement is not followed as regards the requirement of reporting prior to the next payment. Payments to NS take place twice a year. During 2012, re-reporting took place on seven occasions and referred to 3 branches and HQ costs. Re-reporting is, preferably, to be executed per branch.
- Funds regarding budget 2012 were fully reported on in March 2013
- There is not any visible validation that the narrative and financial reports are in accordance and quality assured internally before submission.

We recommend that

- Reporting take place according to the Letter of Agreement. (H)
- Narrative and financial reporting is quality assured before submission. (M)

7.5.9 Capacity Building

Approximately one year ago, NS’s accounting software SAGE, was upgraded. Representatives of NS made a study visit to the Kenyan Red Cross which uses a similar system. A Finance Development Delegate from the Kenya Red Cross was assigned by the CO, one year ago, with the task to support NS in setting up the system, implementing the system with new routines and to continuously train personnel. HQ and all of the branches will, when the system is fully implemented, be able to use the same system. An internal auditor has been appointed in NS to lead this process. When the system is fully implemented, NS will be able to produce consolidated accounts, which is not possible today.

Training has been held, but currently, not all of the branches have begun to use the system in full due to the fact that there is a need for more training. The plan is that they should meet quarterly for discussions regarding technical issues and for training.
The Finance Delegate has also visited some of the branches but it is inconvenient in practical terms for a foreign person to travel to the branches as there is a requirement for a permit to travel even within the country.

At NS HQ, Finance has begun to register the 2013 transactions.

Our assessment is that the process is very good and will contribute to uniform routines, complete bookkeeping, reporting and follow-up in the system, as well as improved internal control. However, it will take time to fully implement the process.

We have been informed that the Finance Development Delegate terminated his assignment in January 2014. We have no further information if he has been replaced.

We recommend that

- It is important to ensure that the personnel at Finance NS have the appropriate competence and have the drive to work with the development of the financial management and implementation of the new software.

(M)

7.6 National Society – Khartoum, Sudan

7.6.1 Registration and organizational structure

The Sudanese Red Crescent Society (SRCS) is a non-governmental, non-profit making organization and is the only NS acknowledged in Sudan in accordance with the constitution of the international movement of Red Cross and Red Crescent. The SRCS was founded in 1956 and was recognized as a movement in 1975.

We have reviewed the Sudanese Red Crescent Society Act, 2010 which has been approved by the Parliament.

For operational arrangements in a given country a Memorandum of Understanding (MoU) is signed between IFRC and the NS. This agreement regulates the cooperation and the respective roles and responsibilities. The MoU outlines IFRC’s and SRC’s joint cooperation and commitment in Sudan and a copy of the same is shared with the HAC (Humanitarian Aid Commission) and other relevant governmental departments which facilitate International staff recruitment of IFRC staff, as well as travel permits across Sudan. We have reviewed the MoU between SRCS and IFRC, signed 22 May 2012 by both parties.

There is also a Cooperation agreement, signed by IFRC, ICRC and SRCS. The Cooperation agreement is internal for the Red Cross movement and serves as a commitment to coordinate with each other. We have reviewed the Cooperation agreement signed by IFRC, ICRC and SRSC.

The headquarters of the Society is located in Khartoum and has established branches in 15 states. The Society shall act without discrimination as regards race, sex, religion, and political affiliation in accordance with the Principles of the international movement of the Red Cross and Red Crescent Societies.
The organizational structure of SRSC consists of:

- The General Assembly
- The Central Committee
- The Executive Committee
- The General Secretariat
- State branches

**The General Assembly**

The General Assembly is the supreme authority and consists of the members of the Central Committee and the representatives of the state branches. Each state branch shall be represented by 5-8 members. The GA meets biannually and election of the members of the Central Committee takes place every four years.

**The Central Committee**

The Central Committee supervises the activities of the society. The CC consists of 32 members elected by the General Assembly, eight members who represent ministries and two public characters elected by the General Assembly. The CC meets at least on time each six months.

**The Executive Committee**

The Executive Committee is the supervisory body of the society and is chaired by the president or his deputy. The EC is composed of ten members, the president, his deputy, the secretary general, the financial trustee and other six members elected by the Central Committee. The EC meets monthly.

**The General Secretariat**

The General Secretariat is the executive body of the Society and is presided by the Secretary General. The president and the secretary general are elected by the General Assembly. There are 57 employees on the headquarters and in total including all branches around 800 employees.

**State branch**

The state branches are constituted by the Central Committee upon proposal of the president and are run by a state Board of Directors.

According to the statutes, the accounts of the Society shall be audited annually by a certified auditor. The auditor shall be appointed by the Central Committee and the Society is tax exempted.

SRCS’s main donors are PNSs (national Red Cross societies present in Sudan: Spain, Norway, Swiss, Iran, Denmark, Netherland, German, Qatar and Saudi), IFRC, ICRC, UN agencies, such as UNDP, UNICEF, etc, ECHO, International NGOs, Embassies, the government and the private sector in Sudan.
The fact that the National Society has so many different donors implies the existence of a large number of different requirements regarding reporting, auditing, etc. The fact that NS receive funds from both IFRC and bilaterally from PNS complicates the handling of funds.

The review has taken place at the HQs in Khartoum, and we have not visited any of the branches.

7.6.2 Agreements and segregation of duties

Agreements see section 7.5.2.

We have not been presented with the delegation of authority and signature specimen list.

According to our review of supporting documents, the SG validates all disbursements and the documents are authorized prior to such validation. We cannot verify the accuracy of the authorization and validation as we did not have any delegation of authority and signature specimen list.

We recommend that

- NS prepares a delegation of authority and signature specimen list. (M)
7.6.3 **Bookkeeping and accounting**

The accounting software is Sage, which was upgraded about a year ago and the implementation of the system is underway. NS has also previously used Sage but the bookkeeping has not been complete. Amongst other things, revenues and costs for the project funds received via the Federation have not been recorded. Changes in bank accounts have, however, been registered in Sage. A type of subsidiary ledger bookkeeping has been done in Excel. After the upgrade, everything is to be registered in Sage. With our visit, the bookkeeping in Sage was not up to date, rather, the registration continued in Excel and was reported in Sage after that registration.

The costs in NCHVP have been reported from the respective branches in Excel files along with the underlying supporting documentation. The reports are signed by the Branch Project Controller, Finance Manager and Executive Director. Upon arrival at HQ, the reports are checked by the responsible FM. The Accountant subsequently checks that the costs are reported in the budget, that there is adequate supporting documentation and that the amount agrees with the reported costs. Thereafter, a financial report is prepared based on the branch report and this financial report is signed and sent to the CO.

The bookkeeping in Excel is comprised of ingoing and outgoing payments from the bank account, which are numbered consecutively during the year and reconciliation that the liability with the CO is equivalent to the outstanding advances to the branches as well as the balance of the bank accounts. This reporting is submitted to the CO. NS receives a monthly trial balance from CO per project which shows the outstanding funds in CHF and SDG, which are reconciled against the NS details.

If the outstanding funds are not reported in the branch, usually further amounts should not be transferred before the accounting of the previous advances has taken place. In our audit of the most recent reconciliation in 2013, there remained a larger advance to one branch which was unreported since April.

*Our assessment* is that the financial system, bookkeeping and follow up show weaknesses and it is impossible to assess the completeness of the bookkeeping. Due to this weakness, NS is under the Working Advance system.

However, one year ago NS’s accounting software SAGE, was upgraded. The system is being implemented together with new routines and training of personnel. HQ and all of the branches will, when the system is fully implemented, be able to use the same system. NS will then be able to produce consolidated accounts, which is not possible today. At the time of our visit, the bookkeeping in Sage was not up to date, rather, the registration continued in Excel and was reported in Sage after that registration.

We recommend that

- NS prioritize the implementation of the new system and routines. *(M)*
- It is important to ensure that the personnel at Finance NS have the appropriate competence and drive to work with the development of the financial management and implementation of the new software. *(M)*
7.6.4 Disbursement routines (cash and bank)

Payment of funds to the branches takes place via bank transfers. Payment via cash at HQ within a project can take place to a limited degree and, then, refers to costs arising at HQ.

Payments via petty cash are registered on an ongoing basis in a Cash Ledger kept by the Cashier. For each payment, there is supporting documentation. Pre-numbered payment vouchers for ingoing and outgoing payments are filled out and signed. The cash balance is reconciled and counted monthly by two individuals, jointly.

As documentation for the payment of funds to branches, there are the Requests, Budget documentation, Transfer Letter to the Bank and Debit Notes from the bank. The funds transferred to the branches are equivalent to 6 months of the total budget.

As the funds referring to NCHVP for 2012 and 2013, these were disbursed during July and May, the branches used, whilst waiting for the payments, their own resources. Certain branches are, however, financially weak so they did not have the possibility to use own resources and in the meantime, they cannot undertake any activities requiring funds. Other branches are financially stronger due, amongst other things, to the fact that they have their own business operations in the form, for example, of warehouses or accommodation. Others can borrow funds from HQ.

Reconciliation of the bank account balances is executed monthly by the responsible accountant.

Salaries

We have interviewed the manager of the HR department regarding the procedures and routines of contracting and salaries. There are 3 staff employed in the department and salaries of 57 out of the 800 employees are handled from the headquarters, the rest are handled from each branch. All of the relevant information regarding all employees is compiled in a database. The supervising of the branches is made by a committee with members from finance and internal audit that visit the branches and review their management procedures.

All salaries are paid by checks except from shorter employments (3 months) which sometimes are paid in cash. The employees do not fill in time sheets. All employees are contracted for specific programs and their salaries are charged to the relevant program or the amounts of the salaries are divided by a certain percentage to be allocated to various projects.

We have reviewed four contracts and one payroll list. The contracts have no signing date. However, they specify the start date of the employment. The contracts are all in the old Sudanese currency (dinar). However, in 2007 a circular No 8437 was issued and shared with the staff indicating the change of the currency and announcing a 15% salary increase for all staff. In addition, in 2011 another circular was issued, No 25527, indicating another increase of salary for all staff by 15%. The payroll lists all comply with Sudanese Labour law. The payroll lists are signed by the staff, preparer and
checked by Chief Accountant, HR and finally approved by the Admin and Finance Manager.

Our assessment is that the review of disbursement refers to the HQ, and it is not possible to express an opinion about the disbursement routines in the branches; neither have we been able to verify the extent of the cash handling in the branches. At HQ the main portion of payments is made by bank transfer or check.

We recommend that

- NS draws up routines and procedures for cash handling in the branches which can contribute to minimizing cash handling and ensuring the efficient use of funds, and that the HQ regularly visits the branches for follow up. (M)

7.6.5 Procurement

The procurement is made from HQ or from the branches. The SRCS has their own procurement policy which is included in their financial policy.

The authorization level for the HQ is as follows:

- \(< 1'000 \text{ SDG (CHF 214)}\) - No special procedures are required.
- \(1'000 > < 2'000 \text{ SDG (CHF 214 – 428)}\) - 3 (or more) written quotations and CBA are required. Approval of Project manager/logistics is required.
- \(2'000 > < 5'000 \text{ SDG (CHF 428 – 1 070)}\) - 3 (or more) written quotations and CBA are required. Approval of Finance director/logistics is required.
- \(5'000 > < 10'000 \text{ SDG (CHF 1 070 – 2 141)}\) - 3 (or more) written quotations are required. Approval of Secretary General is required.
- \(< 10'000 \text{ SDG (CHF 2 141)}\) - Invitation to tender is required and a tender committee shall evaluate and make the decision.

The branches have lower authorization levels and procurements above 30 000 SDG must be made from HQ.

SRCS’s procurement policy has lower level regarding requiring tender process than IFRS’s procurement policy.

The procurement procedure is as follows. The logistics dept. receives a requisition from HQ or from a branch. The requisition must be approved by the program coordinator (the budget holder), the finance dept. and the Secretary General.

They then demand at minimum 3 quotations, mostly from the pre-qualified suppliers and a Comparative Bid Analysis (CBA) is prepared. If the value is above SDG 10 000 a tender process is required and a tender committee assess the quotation and a minute is required.
We have reviewed six procurements in the NCHVP made by the headquarters and branches, see below:

<table>
<thead>
<tr>
<th>Amount SDG</th>
<th>Item</th>
<th>Exceptions noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 000</td>
<td>First Aid Kits</td>
<td>According to the procurement manual, an Invitation for Tender should be followed. However, this doesn't apply to the 3 procurements we reviewed. Only 3 quotations with a CBA was done.</td>
</tr>
<tr>
<td>16 000</td>
<td>First Aid Kits Boxes</td>
<td></td>
</tr>
<tr>
<td>135 848</td>
<td>Printing First Aid Kit Manuals</td>
<td></td>
</tr>
<tr>
<td>4 500</td>
<td>Printing the first Kit Manual</td>
<td>None</td>
</tr>
<tr>
<td>6 000</td>
<td>Printing awareness posters</td>
<td>None</td>
</tr>
<tr>
<td>16 000</td>
<td>First Aid kits for volunteers</td>
<td>No Quotations are attached</td>
</tr>
</tbody>
</table>

The outcome is that only three of the six procurements included a CBA. Furthermore, four of the six procurements exceeded SDG 10,000 and this requires a tender according to SRSC’s procurement policy, but there were no tender processes in place.

There is only one procurement exceeding CHF 50,000, which required approval from the region unit during 2013. The procurement amounted to CHF 616,228 and was properly approved by Geneva, in accordance with IFRC’s procurement policy. This procurement is not in the program funded by SRC.

Our assessment is that SRCS does not use IFRC’s procurement policy. However, SRCS’s authorization levels are lower than those of IFRC. We have further noted that the tender requirement is not complied with.

We recommend that

- NS starts implementing the tender process to comply with the procurement policy. (M)

7.6.6 Audit

External audit

SRSC undertakes an annual statutory audit of their financial statement. We have reviewed the financial statement of 2012 and the auditor’s report is unqualified and dated 2 December 2013. There is no management letter, and according to NS there is a draft that will only be shared once all of the comments have been incorporated and signed off. The audit is made by a firm named Mubarak which is an independent firm.
correspondent with Ernst & Young. We have not been able to verify the membership in IFAC.

External audits of specific programs are made when required by the donor. The program NCVHP in Sudan, funded by SRC, is not object to an external audit but is audited from Geneva as part of the statutory audit of the IFRC.

We have reviewed the Management Letters of some other externally audited projects and the main issue is that the accounting is made in Excel. This issue is eliminated by the IFRC by using the WA system, which implies that all transactions are recorded by the IFRC.

**Internal audit**

The SRCS has one staff in internal audit. Internal audit instructions including the duties and functions of the Internal Audit are in place. The internal auditor reviews all payments and verifies that they are in compliance with regulations and donor requirements. The internal auditor also reviews the procurements.

The internal auditor reports on a yearly basis to the Secretary General. But when needed, in the case of any irregularities, a written report is submitted to the SG.

The internal auditor (together with staff from finance) visits and assesses the management and internal control of the branches. No branches have been assessed during 2013. A total of 5 branches were assessed in 2012. The outcome is reported to the branch director and to the Secretary General. The follow-up takes place at the next assessment of the branch.

**Our assessment is that**

- NS undertakes annual statutory audit despite the fact that there is no consolidated accounts.
- There is no management letter to the statutory audit
- We have not been able to verify the auditor’s membership in IFAC due to that no auditing firm in Sudan is associated with IFAC.
- External audits of specific programs are made when required by the donor.
- In the Management Letters of certain other externally audited projects, the main issue is that the accounting is made in Excel.

**We recommend that**

- NS establishes a yearly plan for the internal auditor to visit and assess the branches’ financial management. (M)
- NS requests a management letter for the statutory audit. (H)
7.6.7  **Risk management and anti-corruption**

NS has a fraud and corruption policy, in Arabic. The policy was adopted in 2013 and discussed by the staff at the headquarters and a workshop took place in January 2013. The content of the policy is as follows:

1. Definition of Corruption and Fraud
2. Elements that can lead to Corruption and Fraud taking place/arising
3. The scope of the policy of addressing Corruption and Fraud which applies to all members and employees and which is to be complied with by all employees
4. Duties and responsibilities of the individuals concerned
5. Internal procedures
6. External procedures
7. How to deal with complaints
8. Confidentiality
9. Legal procedures and preventing the complainant
10. Evaluation and Assessment
11. Procedures for returning the society’s properties, in both physical and moral terms.
12. How to deal with the media

There was a plan to conduct risk management training in 2013 as a part of a Swedish Red Cross Program, but this never took place. Instead, the workshop will take place in 2014 and will be led by the Finance Development Delegate at the CO and this workshop should be attended by project coordinators at branch level and staff from the finance and program departments at HQ.

NS is implementing an accounting system at all levels to reduce the risk of inaccuracy in the accounting and to strengthen the segregation of duties.

NS has not developed a risk register. However, a risk register is developed together with the CO for each development program, see section 7.5.7.

*Our assessment is* that NS has initiated a risk management process and there is a lot of work to be done. We have not been informed about previous cases.

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**We recommend that**

- Training on anti-corruption and fraud forms part of the training of new employees. *(H)*
- Risk register be established and implemented. *(H)*
- An action plan be developed. *(H)*
- Clear guidelines are established and implemented as to how to act when suspicions of irregularities occur. *(H)*
- Documentation regarding investigations of fraud and corruption be filed. *(H)*
7.6.8 Reporting and follow-up

We have interviewed NCHVP Coordinator regarding the management, follow-up and reporting of projects.

The staff of the program includes two staff at the headquarters and one field officer in each branch. One staff at the headquarters is financed by SRC.

Each field officer reports financial figures to the finance department at the headquarters and narrative information to the NCVHP Coordinator. The reporting from the branches is made in excel and the finance department at the headquarters verifies that the supporting documents are complete, and they then send these reports to the finance department at the CO. The reporting to the CO is made on a monthly basis and the reporting to SRC on a semi-annually and yearly basis, according to the cash pledge.

Regarding the financial reporting, see section 7.5.8.

Our assessment is that it is not possible to extract a financial report of NCVHP from the system.

We recommend that

- Reporting take place according to Letter of Agreement. (H)
- Narrative and financial reporting is quality assured before submission. (H)

7.7 National Society – Kabul, Afghanistan

7.7.1 Registration and organizational structure

The Afghan Red Crescent Society was founded on 9 April 1934. The statutes of the Society became effective in October 1954. The Afghan Red Crescent was recognized as a Voluntary Aid Society auxiliary to the public authorities by the Royal Decree No.36935926 date 12 December 1956, Kabul Afghanistan. After fulfillment of the ten required conditions by ICRC, the society submitted request for its recognition to the International Committee of Red Cross (ICRC) on 2 September 1954. The Afghan Red Crescent Society was recognized by ICRC later in the same year. The Afghan Red Crescent Society (ARCS) is legally constituted, having the legal status of an association.

A Board of Directors comprising of thirteen persons governs ARCS. The board members are selected by the President of Afghanistan for a period of 4 years; this period can be renewed for only a second four year period; thereafter, new board members are selected. Currently, all of the board members are active on the board.

The BoD is mainly responsible for the overall and policy level management of ARCS, such as budget and plan approval, structure approval and changes in programs, etc.
As per the statutes of ARCS, the BoD should have bi-monthly meetings for reviewing the overall performance and address any needed relevant issues. To check and verify this, two recent minutes of meetings were reviewed. Based on these minutes of meetings, it can be noted that certain issues were discussed and decisions were also made, however, the interval between meetings was almost four months, instead of two.

The ARCS has an executive body working under the BoD for managing day-to-day affairs. The executive body is chaired by Director General (DG) with having a Deputy supported by Chief of Staff and Director Internal Audit, and a Secretary General responsible for managing all ARCS programs and operations. The Secretary General reports directly to the DG.

ARCS is a country-wide organization having its headquarters in Kabul, seven regional/zonal offices and thirty four field offices in all the thirty four provinces of Afghanistan. The ARCS has approximately 1,600 permanent employees and 46,000 volunteers (ARCS strategic plan 2012-2015). The number of volunteers, however, is highly disputed.

ARCS currently runs several major programs throughout Afghanistan, including programs in healthcare, disaster management (DM), humanitarian values (HV), food for work, restoring family links (tracing), vocational training, mine awareness, Marastoon (social welfare), youth, volunteers programs and organizational development (OD). See organogram of ARCS in Appendix 3.

ARCS is national humanitarian organization supervised by the government. However it does not comprise a government budget unit. This organization raises its funds mainly from two sources, namely internal (within the country) and external. Based on the latest financial reports of ARCS for the years 2011 and 2012, the portion of expenditure covered by the internal revenue sources were 27% in 2011 and 31% in 2012.

Our assessment is that in a general manner, the ARCS is a well-established organization with nearly all of the necessary policies and procedures. This organization has a good potential for internal fundraising with considerable income lines. The audited financial statements of 2011 and 2012 of ARCS reflected a 4% annual increase in internal income covering about 27% in 2011 and 31% in 2012 of total annual expenditures. Looking at the current circumstances, there is a much wider opportunity for strengthening and exploring further internal fundraising in future years.

Since 2011, the ARCS did not face a budget deficit; rather it has had an annual budget surplus of 39% and 34% in 2011 and 2012 (audit report 2012), respectively. On one hand, this shows the financial and fundraising of the organization, but, on the other hand, it shows that the organization did not succeed in implementing its annual plan very well.
We recommend that

- The meetings of the BoD be held bi-monthly as stipulated in the statutes of the organization, as in practical terms this is taking place very four months. Considering the tight schedule of BoD members and the need for meetings, it is recommended to change the stipulated interval from two months to quarterly meetings, or ensure that the meetings are held according to the statutes. (M)

- The organization should improve its documentation and information management system to provide accurate information, as required. (H)

7.7.2 Agreements and segregation of duties

Agreements

A tripartite framework MoU exists between the NS, CO and ICRC that was signed on 22 March 2003. Basically this MoU was signed on the aforementioned date effective to 30 December 2004, then it has been updated on an annual basis. However, currently there is no up-to-date MoU available between the ARCS and IFRC, but all of the records were available at the finance department. The finance department had only the 2003-2004 MoU’s, that is, almost 9 years out of date. Later on when checking other contracts that are kept with the International Relations department, it became aware that this MoU has, in fact, been continually been updated.

Segregation of duties

The National Society is governed by the Board of Directors (BoD), which has 13 members. The members of the BoD are selected and assigned by the President of Afghanistan for a one time renewable tenure of 4 years. The BoD is mainly responsible for the overall and policy level management of the ARCS.

A Director General (DG) manages the executive body. The DG has a deputy who is supported by the Chief of Staff and Director Internal Audit and Secretary General. The operation of ARCS is managed by the Secretary General, reporting directly to the DG. The entire support and operational program units of ARCS work under the Secretary General.

As per the organizational structure, clear and formalised work orders and a segregation of duties exists in ARCS (see appendix 3 for organisational structure). Two samples job descriptions (JD) were checked to see if they were available, comprehensive and conformed to the organisational structure. The job descriptions were available and similar in structure but they were not sufficiently comprehensive. The JDs merely listed the name of the position holder and his or her activities. Other aspects, such as reporting lines, subordinates, coordination, etc. are missing.

Authorizations in ARCS are based on the positions. The authority to take decision in any given area lies with the relevant persons/managers as per their JDs. In terms of finance and procurements, there are different authority levels at different layers in the organization. For example, after a purchase request is made, the line manager of the individual making the request confirms the need for the requested item, and then the
finance department confirms budget availability. After this, the relevant persons authorize the purchases/payments based on their level of authority.

ARCS is an organization with diverse activities and for each or each group of activities they maintain separate bank accounts. Overall, the ARCS have 28 bank accounts at central level. Different individuals are authorized for different bank accounts with different amounts. No accounts require co-signatures. The main account signatories for the different accounts are:

- Director General
- Deputy Director of ARCS
- Secretary General of ARCS
- Director Admin and Finance
- Director Marastoons

ARCS is functional in all 34 provinces of Afghanistan. The provincial managers and other key positions in each province are also authorized to sign bank accounts up to a limited amount. Since this study is focused on the central level, the provincial level ARCS are not analysed in detail.

Our assessment is that ARCS has necessary agreements in place and have a framework agreement with the IFRC to receive institutional development support. This MoU is updated at varying intervals; the latest MoU is effective until end of 2014. The assessors were provided with an outdated MoU first, then, while reviewing the contracts, it was noted that further extended MoU’s also existed. In examining the series of MoUs between the NS and IFRC, it was revealed that a proper contract management system was not in place. Moreover, other donors’ contracts were not available in the finance department; instead they were kept in the office of international relations.

The work orders and segregation of duties is well defined in the NS. They have a well-developed organizational structure with job descriptions for all of the staff members. The segregation of duties in the finance and logistics departments was given special attention and no material or reportable issues were observed. The only issues discovered referred to Job Descriptions which are not sufficiently comprehensive. Two sample job descriptions were checked, and they only listed activities related to the position, but not address the reporting line, subordinates, conditions, etc. The authorization routine was fine, and no issue was identified here. In terms of bank signatories, none of the accounts had co-signatories, all of the bank accounts were found to have one single signatory. There are a number of high officials with signing authority for the bank accounts, including the Finance and HR Director.

We recommend that

- The document management, especially contract management, be improved. (M)
- A review and update of the employees’ job descriptions be carried out and that these include all of the necessary information. This will increase acceptance of responsibilities and avoid further job related conflicts. (M)
7.7.3 **Bookkeeping and accounting**

The organization uses the Microsoft Dynamics Navision which is a secure, multiuser and multifunction ERP application. This software is a comprehensive business solution (enterprise resource planning) connected with all the related divisions, such as logistics and other provinces. The system is hosted and controlled at the central office of ARCS, while other users from the logistics department, zone office and provinces have restricted access to the system to post and update their relevant transactions.

The organization has a detailed chart of accounts for all the income and expense items. For keeping separate records of different donors and projects, the organization assigns and continues separate projects and donor coding. Each donor has a separate code with separate sub-codes for each project. The accounting systems of the organization were checked, and it is able to produce separate reports for each donor, each project and cost centers.

In addition, the organization, itself, has many ad-hoc sources of income and expense items that should be kept and recorded separately e.g. the ARCS has a number of shops in Kabul city rented out and this income and these expenses should be coded separately to provide an integrated, separate report. The system was checked and verified for such separate reports.

The organization normally prepares its consolidated financial reports on a quarterly basis for its internal uses, but in exceptional cases, financial reports are produced more frequently, such as weekly or monthly. For donors, the financial reporting is undertaken based on their individual requirements.

A substantive sample was taken from the expense report for October and November 2013. The sampled vouchers were critically reviewed for quality, authorizations, completeness/supporting documents and any other relevant information. The total number of samples was 24 vouchers; unfortunately only 17 vouchers could be verified. The finance and HR departments were not able to provide the remaining 7 vouchers in the review period. The reason for not being able to present the vouchers was explained as the fact that there is a process underway with the internal audit or other authorities concerning these vouchers.

In terms of completeness and authorization, all of the verified vouchers were supported by adequate supporting documents and had been authorized by the relevant persons. No material issues were found to comment upon as regards the adequacy of the authorizations and supporting documents. However, in some cases, not all of the supporting documents were attached to the vouchers, and some documents, such as contracts, were kept separately in other files.
In terms of quality and adherence to the rules, in general terms, the situation was to some degree acceptable; still in some cases, the routines were not applied very well. There were three contracts in the samples, all of which were single sourced. However, these contracts could be justified because of their lower rate or discounts, but no written justification was provided in the supporting documents. Therefore, the contract management needs to be improved.

The Microsoft Navision software used by the organization incorporates a strong system of security. All the persons registered to make entry into the system can draft, review and revise their transactions and post to the system. Before posting the transaction, all of the users can change their drafts, but once it is posted in the system, no one can change the item from the interface, unless the backend database server is used. For any rectification to any transaction that has been posted wrongly or is defective, a separate contra-entry is posted by the finance and HR department.

As mentioned above, the organization has used the Navision ERP accounting software since February 2013. For implementation and customization of this system, a Microsoft accredited company (Agile solution based in Nepal) was contracted. They have been involved from the beginning and will have their final visit and assessment in two months, in order to identify further support requirements.

ARCS has a sound accounting system, but unfortunately, the ARCS staff are not yet fully capable of operating and managing the system independently; therefore, further training is deemed necessary. The system has a sound fund management option with separate coding for each donor/project. During verification of transactions it was discovered that there are certain delays in the posting of the transactions, particularly those of zone offices and logistics department of the ARCS HQ in Kabul.

The organization uses a finance and accounting manual explaining the accounting standards, key terms, reporting requirements, charts of accounts, banking and cash management, procurements and contract management, authorization, advance management, and budgeting, etc. During the review and verification of samples taken from two months transactions in 2013, adherence to the finance manual provisions was checked. No material non-compliant reportable transactions were found.

In ARCS HQ they keep the advance ledger in their accounting system for the logistics department and as well as for the zone and provincial offices. The cash book and book of receipts are also kept there. Except for the unsettled advances incurred by the logistics department, which is reported on above, no other notable issues were observed.

There is a dedicated manager for bank records and reconciliation. Bank reconciliation it prepared for each account on a monthly basis. ARCS has 28 accounts, and often the balance of most of these accounts remains unchanged. Except for the accounts with unchanged balances, all of these accounts are included in the monthly reconciliation. The bank reconciliations for these accounts were checked and verified and no material issues were identified.

The bank reconciliation is prepared by the bank records and reconciliation manager on a monthly basis and is countersigned by the Finance and HR Director and approved by the Secretary General.
Our assessment is that ARCS, based on the audit recommendation 2011, migrated from QuickBooks to Microsoft Navision accounting software. ARCS contracted AGILE (a Nepal based company) for customization and implementation of Navision in February 2013. The ARCS relevant departments have been facing problems and challenges in using this system.

The overall financial and procurement management is governed by the financial and procurement manuals of the organization separately. These manuals are sufficiently detailed and provide guidance on all procedures and requirements related to procurement. For record keeping, ARCS applies different codes for different projects and donors, as well as having a detailed chart of accounts. The organization keeps subsidiary ledgers for different items, such as cash, advances, etc. There is a dedicated manager for bank records and reconciliation. Bank reconciliation is prepared for each account on monthly basis. However, ARCS have 28 accounts, and except for the accounts with unchanged balances, all others are reconciled.

Despite the above, documentation and information management is very weak e.g. the supporting documents of certain vouchers were scattered around to various units rather than being attached to the vouchers. This shows weak documentation and information management in ARCS and as this is a serious issue, this can have a negative effect on overall financial management.

As per each donor requirement regarding financial reporting and reporting frequency, ARCS prepares financial reports. These reports are usually prepared quarterly. ARCS produce quarterly reports based on its internal requirements; ad-hoc reports are also produced as requested by the management.

We recommend that

- An assessment to be made regarding the contract extension for the IT-services based on the needs identified, either with this supplier or any other eligible supplier. However, this time the arrangement should ensure that the company/professional representative of the supplier should be easily accessible in Afghanistan. (M)

- The documentation and information management be improved. (M)

- All of the supporting documents are attached to their respective vouchers. (H)

- The contract and logistics management be improved and that it adhere to the procurement manual. (H)

- Special attention is placed on strengthening the coordination between the finance and procurement divisions. (M)
7.7.4  Disbursement routines (cash and bank)

Cash: The ARCS uses bank/wire transfer for all the corporate payments. In other words, as regards ARCS's contract with legal entities, all of the payments are made through bank transfer. All payments to the individual suppliers are paid in cash with an unlimited amount.

Payments: The organization has separate departments for finance and procurements. Based on the procurement arrangements, all of the purchases, excluding the purchases made through the petty cash boxes, are paid either by check or bank transfers.

Salary payments: The organization manages its salary payments through the bank. All of the employees of ARCS are having their salary accounts with a local bank (Azizi bank). At the end of each month, the Finance and HR department collect and consolidate the attendance report and share it with the Finance and HR Department. Based on the attendance report, the staff salary is transferred to the individual staff bank accounts.

The ARCS central office deals with two kinds of advances. Advances to the Zone offices and to the logistics department of ARCS HQ in Kabul. The advance and settlement arrangements for the zones and central office’s logistics department are as follows:

Zone Offices: The ARCS has seven zone offices that cover all of the 34 provinces of Afghanistan. Each of the zones coordinates a number of provinces in terms of activities, financial and budget management. The annual budget of each province is divided into quarterly periods and transferred to zones offices on a quarterly basis. Before transferring the quarterly budget of each province, they have to submit their last quarter’s report to the relevant zone offices. The zone offices have to transfer any remaining balances back to ARCS HQ before they receive the next quarterly budget allocation. These transfers are handled via the zone office. None of the offices were observed to have undertaken any overspending or to have a negative balance.

Logistics Department: As mentioned above, all of the corporate payments are made directly by the finance department to the vendor after the entire procurement procedure is completed and the logistics department has submitted a request for payment via bank transfer. In such types of transactions, no advance payments or settlements are required.

Procurement payments to the individual suppliers are paid via the logistics department, and for such payments the department initially receives cash advances.
from finance and HR department using the petty cash account. The finance and HR
department for processing of such advances registers an advance payment transaction
to its finance and accounting system (Navision) and, in return, receives advance
payment receipts from the logistics department printed by the same system. The
logistics department is required to resettle the advances as soon as the procurements
are completed, and does this by submitting the required documentation, including the
cash balance to the finance department and by posting a contra transaction to the
same advance account in the finance system (Navision).

Navision accounting software replaced the QuickBooks in ARCS since February 2013,
based on the auditor recommendations 2011. The introduction of this software started
in February 2013 and now it is in use. In reviewing this system an actual advanced re-
settlement item was found indicating that a large advance settlement is pending with
the logistics department and has been unsettled since August 2013. The logistics
department justified the situation by saying that Navision was new to them and they
were not sufficiently trained and the system has not been operational in the logistics
department until December 2013. This was the main reason that they did not succeed
in settling the advances. The settlement refers to a internal routine and registration in
the Navision system, and does not refer to an external party. This weakness relates
capacity limitations, and shows that the logistics department needs extra support to
enable them to use the Navision system for internal follow-up.

We understand that replacement/ shifting from one accounting system to another is
an extensively time consuming exercise. The justification of the logistics department
can be partly acceptable, however, the issue of not settling a notable amount for a
long period of time remains unjustified. In addition, the logistics department
provided no acceptable evidence of having raised this issue with ARCS senior
management, or of any official attempt to resettle the advances with the finance
department. Furthermore, they had not called for the assistance of the consulting
company – responsible for supporting ARCS in Navision implementation.

The organization executes its payroll on the basis of bank transfers. All of the
employees receive their salaries through bank transfers in their salary accounts on a
monthly basis. Before making the transfer, the payroll is prepared by the finance
department, passing through different checks and controls, and, then, being
authorized by the relevant signatories. The authorized hard copy of the payroll is sent
to the bank through an official letter for transfer.

We understood that ARCS’ salary payment was fine and contained the necessary
checks, controls and authorizations. There was no reportable issue found to focus or
report on.

Our assessment is that the petty cash limit of the organization is equivalent to USD
14,000 and a dedicated person is assigned to manage it. However, there is no fixed
cash count interval, on average basis; this is done on a monthly basis. All of the
payments for the contracts with legal entities are made through bank transfers, but
the payment to the individuals/individual suppliers are made in cash in an unlimited
amount. The staff salary is paid through banks into individual salary accounts. The
organization makes advance payments to the provincial offices and the logistics
department in the central office. With the provincial and zone offices, the advance
management is fine, but this arrangement is weak in the logistics department of
central office.
We recommend that

- The organization decrease its petty cash limit up to a maximum amount of USD 4,000 to avoid possible security threats and misuse of funds. *(M)*

- The organization should strictly stop large cash payments to the individuals/individual suppliers. Cash payments to individuals should be limited to USD 500; any payment above that should be paid through cheque or bank transfers. *(H)*

- The organization should clear all of the advances with the logistics department within the next two months. Moreover, ARCS should reconsider its advance management mechanism, particularly as regards logistics department. *(H)*

### 7.7.5 Procurement

There is a separate department for managing the entire procurement process. The Head of Logistics reports to the Secretary General and to the Under Secretary General for Programme Services. There are certain sub-units, such as Procurement, Stock, Transportation and Asset management that are supporting the Logistics Director.

The procurement process starts with a purchase request for goods or services. A purchase/service request is prepared by the individual making the request. The purchase/service request is verified by that individual’s line manager, certified by the finance department for compliance and budget availability, and, then, authorized by the relevant signatory. Once the purchase request is authorized, the purchase is done using the following threshold:

- Goods and services costing up to AFA 5,000 should be bought directly, no quotation is required. One person makes such a purchase.
- Goods and services worth of more than AFA 5,000 and less than AFA 500,000 requires at least three quotations.
- For the procurement of goods and services costing AFA 500,000 up to AFA 1,000,000 (One Million Afghani) shall be tendered out.
- ARCS will have a public tendering by means of advertising through the mass media for the procurement of goods and services exceeding AFA 1,000,000 (One Million Afghani).

*Our assessment is* based on the following observations made during our review of the procurement system. Purchases up to AFA 5,000 should be done by one person, AFA 5,001-15,000 by a committee two persons and more than AFA 15000 by a committee of three persons.

Normally, such purchases require price comparisons requiring quotations. A committee of two or three persons perform these purchases; in this manner, the initial price comparison is prepared by the committee using a standard format called Summary Bid Analysis. The committee and head of the unit sign the price comparison sheet and it is re-authorized by the relevant signatories. Based on the comparison sheet the lowest priced supplier is awarded the purchase order. After the goods have been supplied, they are checked, stocked and a GRN is issued to the supplier to claim.
payment. The entire process is well documented and the documents are kept separately for each transaction, but there is not a specific timeline for each subprocess, nor as regards the total process.

The entire process was analysed and a number of issues came to the fore. This department is linked with Microsoft Navision software to clear all of its accounts with the finance department, but during the analysis it was found that the logistics department has not used the Navision for long periods of time and the system shows an unsettled advance. The logistics department justified this by saying that Navision was new to them and they were not sufficiently trained and the system was not operational in the logistics department until December 2013.

Three contracts were sampled for cost verification of which all three were single sourced purchases. Such single-sourced contracts could be justifiable on the basis of having a lower rate or discounts, but no written justification was provided in the supporting documents. Therefore, the contract management, in particular, needs to improve and should comply with the procurement manual.

We recommend that

- The logistics department settles all advances and receives clearance from the finance department in one to two months. Management should provide any necessary technical assistance and guidance. (H)

- A quick technical knowledge deficiency assessment of the logistics department as regards use of Microsoft Navision should be undertaken and training should be provided to the relevant staff members. This recommendation to be considered to apply for the short term, for the long term the ARCS is recommended to consider the following measure. (M)

- The ARCS is recommended to: reconsider/rotate some the key position holders in this department with other departments; or recruit one or two additional employees/consultants with the relevant education and background as regards procurements. (H)

- To conduct some tailor-made training to enable effective use of Microsoft Navision and to be able to manage the procurement process. (H)
- The ARCS logistics department should make sure that their practices are adherent to the procurement manual in regards to single sourced procurements. (M)

- There is need to improve coordination between the finance and procurement departments. (H)

### 7.7.6 Audit

**Internal audit**

Internal Audit is a directorate under the Deputy DG of ARCS. A director is heading the unit with different sub-units and teams. This division operates based on the “Internal Audit Procedures of ARCS” which is a detailed manual on why, when and how to conduct internal audits. The internal audit department works using two different approaches as regards the planning and conducting audits.

In the first approach, a comprehensive plan of internal audit for one year is prepared, normally such a plan is intended to cover the entire headquarters and regional offices in all of the provinces. For execution of the plan, different audit teams are assigned to different divisions and provinces. Once the teams complete the audit in the different areas, they have to prepare reports and submit them for further checking and analyses to the office of Internal Audit Director. The internal audit director after analysis, particularly as regards material findings, shares the information with Deputy DG and DG for discussion and decisions about corrective measures. In this manner, the internal audit reports are prepared and submitted on a “case-by-case” basis throughout the year. Also, the reports are followed-up and maintained in a “case-by-case” manner; they are not consolidated into a comprehensive annual internal audit report.

The second approach is the unplanned surprise audits, particularly when suspicious conditions are noted or reported. In such cases the internal audit department initiates supervision and assesses the issues. They first assess the materiality of the case to decide on their analysis approach and scope. Then they conduct the audit and prepare a detailed report. The report is then further analysed by the office of Internal Audit Director and decisions are made for submission of the report to the Deputy and DG, based on case’s materiality.

The internal audit reports are included in the classified information of the organization. The internal audit reports are usually shared only with the Deputy and DG. They are not shared with outsiders or anyone else in the organization, unless directed to do so by the DG.

**External audit**

The external audit arrangement in ARCS is also based on an annual audit. The organization mainly conducts annual organizational external audits. In certain cases, based on the donor requirements, ad-hoc audits are conducted by the donor and the assigned auditors and assessors examine a specific areas financed by the donor. In
2011, ARCS was audited by Rafaqat Babar, a Pakistani audit firm. In 2012, ARCS’s auditor was Ghulam Abbas Naqvi and Co., also a Pakistani audit firm.

Our assessment is that there were plenty of recommendations in the audit report of 2012 referring to weak documentation management, the fact that some vouchers were missing, weak coordination between different units, incomplete financial reporting, etc. ARCS does not develop separate action plans for addressing the audit recommendations, but only consider the important recommendations through oral discussions. In addition, while working on different parts of this assessment, we have examined to see if the audit recommendations have been addressed. Except for a number of cases, the recommendations had not been adequately implemented e.g. proper documentation management was an issue in the audit report of 2012, and this issue has not been considered and taken care of and still is a notable shortcoming.

We recommend that

- The external audit recommendations be attended to and that a time-bound action plan with clear responsibilities for each division is documented. In addition, there should be a clear follow-up mechanism on the application of recommendations, preferably by the internal audit department. (H)

7.7.7 Risk management and anti-corruption

Currently, the organization does not have a written anti-corruption policy. The organization is working to develop its comprehensive policy on anti-corruption (meeting with internal audit department, 19 January 2014). They did not provide any draft copy or evidence for the development of this policy, mentioning that they will not share it with the outsiders before it is finalized.

There is a dedicated individual (General Manager Anti-corruption) in the internal audit department whose responsibility is to monitor the issues related to fraud. His monitoring approach is only dependent upon internal and outsider fraud/corruption voluntary reports, if any such reports are presented to him at all. For receiving fraud or corruption reports, complaint boxes are installed in various approachable places and personal visits are also accepted. The general manager for anti-corruption reports to the Internal Audit Director.

Upon receiving a report, call or complaint, the General Manager Anti-corruption starts investigating the issue. First, he makes a quick assessment of how material the issue and reports are and then reports this to the internal audit director. Based on the materiality of the issue, a committee is assigned, including the General Manager for Anti-corruption, for further investigation of the case. As ARCS does not have an anti-corruption policy, it could not be identified if they have any process or preventive mechanism for identifying potential leakage or corruption risks.

As ARCS did not have any anti-corruption policy at the time of this assessment, it is not possible to verify if they have any preventive measures for risk mitigation and preventing corruption and fraud. However, there is an internal audit manual.
The IFRC has no direct interference with the ARCS on monitoring and handling suspicious corruptions. The IFRC collects all of the original procurement documents of ARCS on its funded activities and applies its control procedures to the documents by checking them against the determined quality standards and guidelines. Any voucher or items in the vouchers failing to meet the standards and which do not match the IFRC guidelines, are directly rejected and declared ineligible. ARCS was requested to share suspicious internal audit case findings and corruption cases together with corrective measures for rectifying leakages. They declared all such finds as classified and, therefore, they could not be verified.

Our assessment is that as explained under the audit section, the ARCS has an internal audit set up that conducts regular audits covering the entire structure and also has ad hoc audits covering the identified suspicious issues. A dedicated manager within the internal audit department is monitoring the suspicious issues on a regular basis. The anti-corruption policy of the organization is under development. It is not finalized and we cannot check compliance with the policy, nor was any evidence was provided as regards compliance. The internal audit department has its standard operating procedure handbook to follow in conducting any audit.

The organization itself has no routines to inform donors or other stakeholders when detecting suspicious corruption issues or irregularities. In cases of irregularities, the internal audit department steps in and tries to resolve the problems.

We recommend that

- ARCS develop and implement an anti-corruption policy focusing on preventive strategies for preventing corruption and that it makes this policy effective as soon as possible —at latest within three months. (H)

- ARCS keep an up-to-date risk register and discuss it in its management meetings, for identifying and implementing relevant solutions. (H)

- ARCS make some ad-hoc direct controls on the financial and procurement of the ARCS. (H)

- ARCS develop a system to inform the relevant donors and possibly important stakeholders on material suspicious issues, risk and fraud alerts. (H)

7.7.8 Reporting and follow-up

The organization states that it undertakes quarterly financial reporting and provides different financial reports at different intervals, based on donors’ requirements. The organization was asked to provide at least two hard copies of the most recent quarterly financial reports for further analysis, but they could not provide these until 28 January 2014, hence the signing and other controls could not be verified. Instead, they provided an annual financial report for the period 21 December 2012 – 31 December 2013, generated from the Navision system on 29 January 2014.
Our assessment is that, based on the observations made, we have understood that the financial reports are not prepared quarterly.

We recommend that

- The ARCS should improve its financial reporting and documentation management to provide timely information. Monthly financial reports should be prepared which could help to analyse the variances and in taking corrective actions. (H)
8 Desk-study – IFRC delegation in Pakistan

8.1 Background
According to the terms of reference, a desk-study has been conducted in regards to the following areas:

- Review of the reports from completed investigations and audits of the IFRC Pakistan delegation regarding procurement of goods.
- Assessment as to whether IFRC has taken appropriate action in response to the recommendations in the written reports from the internal review and KPMG audit.
- Assessment as to whether Sida funds have been used for intended purposes.

Below we have summarized our assessments as regards the documentation we have received and have been able to study.

The background to the investigation carried out of the Pakistan Office is based on the following information:

“The Asia Pacific Zone received anonymous emails alleging that certain corrupt activities were taking place at IFRC Pakistan country office. Accordingly, the Asia Pacific Director of Zone commissioned an internal control review which was undertaken by a team supported by the Zone Regional Logistics unit and the internal audit department. The review identified some internal control weaknesses relating to a number of relief goods procurement transactions.

To further substantiate the findings, the Director of Asia Pacific Zone office, in coordination with the audit department, commissioned KPMG to undertake a fact finding forensic investigation surrounding the allegations in respect to the internal control weaknesses that had already been identified by the internal investigation, and also to identify and investigate other additional cases, if any.”

8.2 Reports
This desk-study has been based on the following reports that we have been able to study and read at the premises of Sida and as hard-copies.


- “KPMG – Factual report relating to operations of International Federation of Red Cross and Red Crescent Societies”, KPMG Forensic, Switzerland, 3 February 2011.

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3 "Asia Pacific Zone – Pakistan Office Forensic Investigation Summary Report, Recommendations and Follow-up Progress Report, August 2011."
8.3 Summary of outcome of the reports

Below we have summarized the major, significant observations that were highlighted in the different reports listed above (see reference).

Internal Review Report

IFRC led an internal review in 2010 which launched a cycle of investigations the summary in this review reveals that between 2006 and 2009 “that there has been widespread and systematic corruption taking place within the IFRC Pakistan delegation. This malpractice has been ongoing since at least 2006 (in the aftermath of the massive earthquake in October 2005). It is mentioned that it has been a particular problem related to procurement of goods and services. Furthermore the report highlights that “the review shows a lack of awareness, will, and organizational structures (within IFRC delegation) to handle and possibly mitigate such risks. The risk of corruption in Pakistan is a well-known problem and it is highlighted yearly in reports from the World Bank and Transparency International and others.”

The review report also highlights that “the major disasters during the review period has been the earthquake in Northern Pakistan in October 2005, floods in 2007, the earthquake in Baluchistan in 2008 and the IDP operation in western Pakistan during 2009. The review does not assess the situation in Pakistan before the 2005 earthquake, when the delegation was much smaller”.

In summary the review report highlights the following areas of identified irregularities or fraud and corruption:

- Bribery, kick-backs, collusion and coercion to distort the process of supplier database
- Supply of sub-standard goods
- Manipulation of tenders and bidding documents
- Bid-rigging and insider information
- Biased supplier pre-qualification and rigging of suppliers in the supplier database
- Surplus procurement taking place
- Systematic manipulation of bid evaluation, contract award and execution
- Theft of goods
- Bias in recruitment of national staff
- Falsification or disappearance of inventory documents
- Financial fraud and false invoices
- Intimidation and coercion of both national and international staff.

The final conclusion in this review report recommends that a forensic audit be carried out by an international external consultant.
KPMG report

As background information, the assignment the KPMG refers to the previous internal review that was carried out and describes the following:

“As a result of allegations and internal control review, an internal investigation was carried out by the Zone Office personnel in relation to the procurement activities at IFRC, as a result of which various instances of alleged fraudulent and corrupt activities were uncovered. As a result IFRC commissioned KPMG Switzerland to undertake a fact finding forensic investigation surrounding the allegations in respect of nine identified procurement cases and also to identify and investigate five additional cases.”

The objective in the Terms of Reference for the assignment referred to the following areas:

- Analyze how the internal investigation was performed by IFRC and determine how it was substantiated and documented; and
- Complete the investigation on issues that were not or not completely covered by the internal investigation.

Based on the sixteen (16) procurement related cases and other general procedures performed, that were reviewed by KPMG, some key issues were identified and grouped according to “possible wrong doing” and “control related issues”. Below we have summarized the issues that were highlighted:

- In regards to instances of possible wrong doing it was noted that five (5) of the reviewed procurements were identified as possible wrong doings, and it was also noted that there were possible relationships between IFRC staff and suppliers.

- In regards to control related issues the following observations were highlighted in the report:
  - Supplier registration not complete
  - Budgeting and requisition process, lack of documentation and basis
  - Sample evaluation criteria, inadequate details
  - Good Receipt Notes (GRN), not always available in the IFRC records
  - Stock movement report, not properly maintained
  - Liquidation Damages, not always claimed
  - Supplier database, excel-sheets not always updated.
  - Conflict of interest declaration by suppliers, lack of documentation
  - Vendor complaint mechanism, no independent channel
  - Anti-fraud policy, lack of policy
  - Whistleblowing, not widely communicated
  - Conflict of interest declaration by employees, lack in updating documentation
  - Pre-employment screening and employee qualifications, lack of routines

- It was also noted in the report that IFRC has been operating in Pakistan for more than twenty years without the required Legal Status agreement.
8.4 Summary of recommendations, action plan and follow-up

According to the reports submitted and referred to above, and the follow-up progress reports submitted by Asia Pacific Zone (August 2011), the identified issues in the reports were specified in the following two categories:

1. Issues of possible wrong doing:
   - Instances of procurement process manipulation and collusion of suppliers were identified. Fact finding and data analysis confirming the involvement of at least one expatriate and a number of national staff.
   - Eight out of the sixteen procurement cases that were investigated had possible quantifiable adverse financial impact on the IFRC. However, most of the quantifiable impact was related to two cases where manipulation in the selection of suppliers occurred.

2. Issues related to internal controls:
   - Weaknesses related to suppliers’ database maintenance.
   - Absence of conflict of interest declarations (IFRC employees and also suppliers).
   - Weaknesses related to dissemination of the Whistle blowing system.
   - Weaknesses relating to pre-employment screening and verification.
   - Lack of robust product sample testing during procurement bidding adjudication.
   - Misplacement or inexistence of some Goods Receipt Notes.
   - Lack of robust stock movement management system.
   - Unclaimed liquidation damages.

Based on the identified issues listed above, the Asia Pacific Zone Regional Logistics Unit, in close coordination with Zone management has developed an Action Plan to deal with the above findings.

- **To deal with issues of possible wrong doing and prevent future corrupt actions from taking place:**

  With the agreement of interim head of Pakistan office, South Asia head of office and interim director of Asia Pacific Zone, it has been decided to establish, recruit and engage a position of risk management officer to assist the delegation to provide high quality risk management advisory service. This position is designed to add value and give management objective feedback on the effectiveness of the operation’s risk management framework and internal control environment. The Risk Management Officer also acts as an agent for change by making recommendations for continual improvement, therefore assisting management with the accomplishment of their assigned responsibilities.

- **In summary to deal with issues related to internal controls:**
  - Supplier registration forms to be comprehensively completed.
  - Improve the process for managing products sample testing, with detailed & documented analysis of the results, as part of the procurement bidding adjudication.
  - Reinforce the financial and logistics mechanisms and processes to ensure that Goods Receipt Notes are received, properly checked and filled, before payment to supplier is performed.
  - Take corrective steps to ensure that movement of stock reports are adequately maintained and monitored.
Claiming of liquidation damages to be performed whenever applicable.
Supplier database to be updated on a regular basis.
A section covering fraud, corruption and conflict of interest will be incorporated into all procurement contracts.
To look into the possibility of having an independent channel through which vendors are able to report possible kickbacks.
Global IFRC Fraud and corruption policy being finalised.
Whistle blowing mechanism to be widely communicated.
To determine the eventual need for conflict of interest declarations to be signed by all IFRC employees, including both, delegates and national staff.
To introduce the necessary mechanisms to consistently perform pre-employment screening and employee qualifications verification.

3. Follow up visit to be undertaken by the IFRC Regional/Global Logistics Unit to review progress and provide support as necessary over the next 6 – 12 months.

Based on the reports submitted and referred to above, a total of 18 recommendations have been put forward in order to act on the irregularities and weaknesses that have been identified.

<table>
<thead>
<tr>
<th>Observations and recommendations</th>
<th>Status update by IFRC August 2011</th>
</tr>
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<tbody>
<tr>
<td>1. Lack of documentation in regards to supplier registration. In order to comply with IFRC requirements (as stipulated in section 4 of 'The Federations Procurement Manual') it is recommended that the above deficiencies in the registration forms be addressed by IFRC management.</td>
<td>Prequalification of suppliers by individual visits to the suppliers’ premise still in progress. Supplier performance is now recorded in the procurement database upon the completion of each transaction. Hiring of inspection agency to be completed by Dec 2011.</td>
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<tr>
<td>2. Weakness in the budget and requisition process, with no supporting documentation for requisitions, repeat orders for identical items, and no validation on the requisition form. It is recommended that IFRC may consider reviewing the appropriateness of their budgetary process of procurement of appeal items in line with the Federations Project Budgeting Guidelines dated 8 June 2007.</td>
<td>Finance team (ZFU) ensures that budget amount is mentioned on the LR before validating.</td>
</tr>
<tr>
<td>3. Sample evaluation criteria is not agreed prior to evaluation, and there is a lack of documentation in the evaluation and decision. More details regarding the results of the evaluation should be recorded on the sample evaluation document by the relevant procurement staff.</td>
<td>Implemented.</td>
</tr>
</tbody>
</table>
4. Regret letters not sent to unsuccessful bidders. In order to ensure compliance with the section 7.16 of the Federations Procurement Manual ("Procurement Manual"), regret letters should be sent to all unsuccessful bidders by IFRC. Implemented.

5. Goods Received Note (GRN) lacks description of the items and in some cases not available. A proper description of items procured should be recorded in the respective GRNs by IFRC. Efforts should be made by the relevant staff to locate the missing GRNs; alternatively, consideration should be given by IFRC (as far as practicable) to seek confirmation of the delivery of items concerning these missing GRNs from the respective suppliers. All weight and, unit etc. information is now entirely reflected in the Logic system and all GRNs are part of the mandatory documents prepared before releasing of payment. Archiving process still in progress.

6. Stock movement report not maintained. It is recommend that proper stock reports (showing the movement of goods) should be prepared and maintained by IFRC in respect of all procured stock items. Implemented. A stock management system Logic software has been installed recording all the movement of stocks.

7. Liquidated Damages (LD). It is recommended that in the event of delays in the agreed delivery schedule, LDs (where applicable) should be claimed from the respective supplier. Further, in cases where the LD is waived, the underlying reasons should be documented and approved by IFRC. Implemented.

8. Performance Bond not submitted in time. In order to comply with the terms of the PO, performance bonds should be obtained by IFRC from the all suppliers within 5 days. Implemented.

9. Suppliers database maintained in an Excel spread sheet and not updated on a regular basis. In order to comply with the Procurement Manual section 4.05, a supplier's data base should be updated on a regular basis by IFRC. Implemented.

10. Conflict of interest declaration by suppliers not required for suppliers. IFRC should consider implementing a reporting mechanism for declaration of conflict of interest for which a database should be maintained and reviewed regularly. Implemented. Conflict of interest clause is included in all contracts.
11. **Vendor complaint mechanism lacks independent channel for reporting for vendors.** IFRC should consider the implementation of a reporting mechanism through which supplier complaints can be reported. Often an independent whistle blowing service is utilized for this purpose.

Consultation with IFRC Global Head of Logistics. There is a process for looking at the future system so support service delivery (under logistics strategic plan 2015) could be provided. It would be wise to consider this feature in the future new system. Meanwhile, all complaints can be sent directly to the address of the Manager Procurement Unit, Geneva.

12. **Lack of sealed tender boxes.** The international better practice requirement is for tenders to be received at a central point and placed by the vendor into a sealed tender box. This would ensure that all tenders are opened simultaneously and can prevent sensitive information from leaking out before the tender opening stage.

Implemented.

Implementation of sealed tender boxes, sealed bid e-mail account sand sealed fax lines.

13. **Anti-Fraud policy not implemented.** IFRC management may wish to consider developing and implementing a comprehensive Anti-Fraud Policy addressing the following areas: Prevention – Training and communication of fraud policies, performance of fraud risk assessments, pre-employment screening, fraud awareness campaigns and direct fraud prevention training etc. Detection – Proactive data analysis, independent whistle blowing line and surprise audits.

Policy has been presented to Finance Commission in August 2011, thereafter to the governing board. When passed by the governing board, it will be applicable to the Secretariat and members. Third parties will be made aware of this policy when we enter in to contractual obligations.

14. **Whistle-blowing not fully implemented and informed about.** IFRC management should consider communicating the Federation hotline number to its employees. According to HR staff, the hotline details will be communicated to staff and posted on the notice board.

Complain boxes have been installed and staff has been made aware of SafeCall and the whistle-blowing function.

15. **Employee fraud awareness training has not been provided.** IFRC should consider introducing a comprehensive fraud risk awareness training program (as a regular feature) highlighting the key fraud risk areas, related tissues and trends.

In progress. In regards to the Fraud awareness training, the topic has been discussed at several all staff meetings and during unit meetings. Once the new HoD is in place it will be an area for her to institute more standardized and regular training and workshops.
### 16. Conflict of interest declaration by employees not required. IFRC should consider implementing a reporting mechanism for the declaration of conflicts of interest for which a database can be maintained and reviewed regularly.

Ongoing. The delegation has instituted a policy implying that employees and delegates sign a “conflict of interest” declaration ensuring that the full team is aware of what this policy is and that should they have a “conflict of interest” with an external body, they must declare this to the IFRC. This supplements and strengthens already existing provisions found in the code of conduct.

### 17. Pre-employment screening and employee qualifications. It is recommended that detailed due diligence procedures should be executed by IFRC prior to appointing employees. These procedures may include e.g. criminal background checks, verification of educational certificates, reason for leaving last employer and reference checks. Further, IFRC may also consider introducing and implementing a policy concerning pre-employment screening.

Implemented. From June 2011 the IFRC will screen all contracted staff, contracted under by IFRC.

### 18. Missing records, unable to locate. It is recommended that IFRC should consider locating the above missing documents and the overall control over the documents/file maintenance should be enhanced.

Two out of three missing files have been located and archived. Controls over documents/files will be strengthened.

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**8.5 Our assessment and recommendations based on the desk-study**

As a summary of our assessment based on this desk-study, we wish to highlight some areas which we have identified for actions to be taken as referred to in the Terms of Reference in this assignment.

#### 8.5.1 General

Based on the reports and the information that we have been able to read and have had access to, there has been a chain of incidents and actions taken. We note that the first allegations in regards to the procurement process in Pakistan were highlighted during 2009. It has also been noted that during the period of 2006 – 2009 (three years) there was several disasters in the region and it has been indicated that there was particular problems in regards to procurement of goods and services.

We note that the Federation has not been able to sign a Legal Status Agreement with the government in Pakistan, hence all local procurements are handled by the National Society. In regards to large disaster interventions, as has been the case in Pakistan, not having a Legal Status Agreement in place constitutes a major weakness in ensuring compliance with IFRC rules and regulations and weakens the organizational support as regards the validation and accuracy in reporting to donors and other stakeholders.
Anti-corruption policy

A fraud and corruption prevention and control policy was implemented in 2012. The policy was approved by the governing board of the IFRC in September 2011. The policy applies to all personnel and complements the IFRC Code of Conduct and all personnel shall adhere to this policy. All members are to be made aware of the policy. In line with the Federation’s Integrity Policy, it is expected that Members will take the necessary actions to handle any allegations concerning their organizations.

Our assessment is that the Anti-Corruption Policy was implemented in 2012 and which applies to the Federation. It is stressed that also members within the Federation should adhere to the policy, however principles and rules apply to the National Societies who have their own policies and frameworks in regards to anti-corruption and related subjects. We note that it is crucial that the respective leadership within the National Societies implements and makes staff and the organization aware of the policies and regulations. The implementation of an anti-corruption policy is, though, a weak link within the Movement and for the Pakistan National Society, this has been a challenge. The implementation of an anti-corruption policy is dependent on a good leadership. It is also a challenge and it is most important to maintain the level of compliance during disaster situations when there is a large number of volunteers’ working and there is a large turn-over of staff.

We recommend that

- Ensure that the Pakistan National Society implements the policy for anti-corruption and that the staff is made aware of the policies and prevention measures. (H)

- Ensure the establishment of resources for anti-corruption work and that this is included in the budget and allocated resources. (H)

Legal Status Agreement

In relation to Legal status for the IFRC to act in a specific country, a Legal Status Agreements is to be signed between the IFRC and the local authority/government in respective country, signed by the Secretary General. A status agreement is the explicit expression by a Government of their recognition of the IFRC “international legal personality” and corresponding ability to carry out legal acts in the Country and the terms and conditions under which IFRC can carry out these legal acts (for example, tax exemptions, custom duty exemptions; immunity from national legal processes – and inviolability of our staff and property).

We note that the IFRC country office in Pakistan does not have a Legal Status Agreement signed with the government. This implies that all local activities and formalities are carried out under the responsibility of the Pakistan National Society, and there is less control in terms of procurements. The process with the government has been ongoing for +20 years. In the MoU, it is stated that the National Society must adhere to IFRC guidelines, however in a situation in which huge disaster interventions are carried out, it is highly important to ensure that the country with operational activities has a Legal Status agreement in place.
We recommend that

- 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 Legal Status agreement. (H)

Humanitarian Logistics Software (HLS)

The Humanitarian Logistics Software (HLS) is used by the IFRC Global Logistics Services (GLS) for procurement and mobilisation of goods. The system is implemented at the HQ in Geneva and at the different Zone offices. However, the system is not implemented/used at IFRC regional and country level. In the MoU, it is stated that National Society is to adhere to IFRC guidelines. This constitutes a weakness for the AP Zone and as regards the procurements carried out in the respective countries. In regards to Pakistan, there is no logistics system in place to handle the large volumes of procurements and logistics in disaster situations, which is a severe risk.

We recommend that

- In order to ensure compliance with IFRC rules and regulations in regards to local 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. (M)

Organizational structure

The Pakistan National Society has improved its organization in regards to implemented routines and regulations. The National Society implements projects and programs, and the IFRC country office is responsible towards the donors. MoU has been signed between the IFRC and the National society. However, we note that in contrast with the recommendations, no new Procurement Officer had been hired as per this review. Further capacity support needs to be increased to branches at the National Societies. We note that there are a number of procedural documents, however, there are improvements to be made in regards to follow-up and compliance.

We recommend that

- According to recommendations, pursue hiring a Procurement Officer in order to strengthen the capacity and ensure compliance with rules and regulations. (H)
**Procurement procedures**

As from 2010, procurements in Pakistan are undertaken through the IFRC country office, as well as via the National Society, with the support of the IFRC. Medicine and food is procured via global framework agreements. When the National Society procures goods, this has to be carried out through IFRC and Geneva. The committee of contract (CoC) comprises of people from both National Societies and the IFRC country office. Suppliers have to be registered in the IFRC register.

We recommend that

- In order to further control the process and compliance with procurement rules and regulations, IFRC should further pursue the establishment of Legal Status agreement. (H)

Our assessment on an overall level based on this desk-study is that there have been a number of improvements implemented in regards to the National Society in Pakistan and as regards the procurement and logistics areas. The Federation has, since the time of the review of the Pakistan Delegation, implemented a number of policies and procedures in regards to anti-corruption and prevention and risk management, which were not in place at the time of the previous reviews. According to the follow-up carried out based on the action plan, we note that several of the observations made in the reports have been attended to and some areas of improvements are in progress. However, it is important that the Federation further pursue a Legal Status agreement in Pakistan, in order to ensure compliance with rules and regulations for procurements and logistics in the future. It is also important to follow-up on the implementation of a new logistics system and that this system is implemented and used also by Country and Regional delegations. As recommended in the reports, we also like to stress that it is important to be diligent and follow-up on competence in regards to staff working with procurement, and logistics, and as well, following-up on the recruitment of a Procurement Officer, in order to strengthen the capacity.

In regard to the questions referred to in the Terms of Reference, based on this desk-study and review of the above reports, we are not in the position to establish whether or not Sida funds have been used for the intended purposes for the period referring to in the reports, which have been a part of this desk-study. However, based on the review of the reports and follow-up on actions taken, we have been able to assess the follow-up on actions taken and we note that several actions have been implemented in response to the recommendations in the reports. We also note that there are still outstanding recommendations and actions to be taken, which need further attention.