



Assurance review of the Indonesia and Timor-Leste Country Cluster Support Team

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1. Introduction

1.1. Area subject to review

1. The purpose of this review is to provide management with feedback on the existing control environment and risk mitigation actions in place for IFRC presence in Indonesia and Timor-Leste. Our review assessed the risks and controls in the main office in Jakarta and two field offices in Palu and Lombok. We also reviewed IFRC's collaboration with the Indonesia Red Cross, Palang Merah Indonesia (PMI).
2. The review considered the IFRC's internal policies and procedures, current programme activities and risk management in local environments. Our review drew on the relevant issues found during the field work, as described in Section 3 of this report. The scope and terms of reference of our review is in Appendix 2 – Audit Scope and Terms of Reference.

1.2. International Federation of the Red Cross and Red Crescent Societies (IFRC) context

3. The Country Cluster Support Team (CCST) in Jakarta provides support for the delivery of Palang Merah Indonesia (PMI) and Timor-Leste Red Cross Society operational and strategic plans. The Office also functions as the IFRC representation to the Association of South East Asian Nations (ASEAN), a ten-member organisation of leaders from South East Asia Nations, promoting economic, social and cultural growth.
4. Two field offices in Lombok and Palu were established to support PMI, after a series of natural disasters struck the area between July and September 2018. The IFRC launched a Disaster Relief Emergency Fund (DREF) of CHF 211,569 at first. By 2019, funding had increased to CHF 38.9 million to support the growing needs of the affected communities. The full appeal also covers the smaller scale Sunda Earthquake and Tsunami disaster that occurred in December 2018.
5. Indonesia and Timor-Leste's geographic location in the Pacific Ring of Fire means that both are at risk of earthquake and the effects of tsunamis, floods and landslides. The last large-scale disaster affecting Indonesia was the 2004 Indian Ocean earthquake and Tsunami, but there are localised emergencies on an annual basis. The IFRC supports long-term projects for the two countries in disaster risk reduction, disaster response, flood resilience, water and sanitation, community safety and resilience, and national society development.
6. Indonesia has the fourth highest population in the world, with 269 million people spread across 33 provinces. The Palang Merah Indonesia was established because of continued advocacy that spanned over a decade, starting in 1932 until its official formation in 1945. The PMI continues to be an auxiliary to the Indonesian Government through its presence on the many islands that constitute Indonesian territory. This creates the need for PMI to address urban risk reduction through their annual programmes, alongside responding to frequent natural disasters affecting the wider country, especially in more remote provinces.
7. Timor-Leste Red Cross, locally known as Cruz Vermelha de Timor-Leste (CVTL), was established in 2000. CVTL is the 183rd member of the IFRC movement. The focus is on developing the national society, being a young organisation and a relatively new member of the Federation. The CVTL receives support from the IFRC and other movement partners such as the ICRC and Australian Red Cross in their long-term projects. The last emergency appeal launched by the IFRC was in 2016 for CHF 751,075 to support drought operations.

1.3. Rationale for the review

8. Our last internal audit of the Indonesia and Timor-Leste CCST was performed in December 2016. We included the CCST in our 2019 internal audit plan due to the significant funds received from various donors supporting the emergency operations.
9. Our internal audit was performed in March 2019, based on a preliminary risk assessment related to:
 - **Operations** – The capacity of the IFRC and PMI when responding to the needs of communities affected by continued disasters.
 - **Finance** – The capacity of the IFRC and PMI to implement agreed activities from the funds raised for the recent emergency appeal, and the subsequent reporting needs of donors.
 - **Partner relations** – PMI's governance and management structures and processes and the potential risk to the provision of IFRC support and meeting IFRC objectives.
 - **Fraud and corruption** – Learning from previous operations, the risk of fraud and corruption can increase during large scale operations. Transparency International assessed Indonesia as having a Corruption Perception Index of 38 in 2017 (from a maximum CPI of 100 representing the least corrupt).

The preliminary assessment serves as a baseline giving further rationale and direction for our terms of reference. Our review provided further analysis of the existence and level of risk in-country.

2. Scope of Review

10. The review of the Indonesia and Timor-Leste Country Cluster Support Team (CCST) was part of the 2019 agreed internal audit plan. The scope covered operations in 2018. The main objectives of the audit were as follows:

Oversight and risk management

- Risk management (including the process to identify, assess and manage risk) oversight and monitoring.
- Organisation and coordination, including communication.
- Legal risk management including contract management, legal status, and integration agreements with Partner National Societies (PNS).

Programme and partnerships management

- Programme management, planning, monitoring, evaluation and reporting systems.
- Resource development and partnerships.
- Logistics, procurement and fleet management.
- Security.

Operation support

- Finance, including treasury, bank accounts and cash management, expenditure reviews, working advance management, accounting and reporting.
- Human resources.
- Administration, including filing and backups
- Assets and inventory safeguarding

11. The scope of the internal audit included reviewing the risks of fraud but did not include detecting or investigating fraud.



3. Review Findings

3.1. Good practice identified

12. We identified the following examples of good practice:

- The CCST has a risk register, although this needs to be further enhanced and reviewed to ensure the risks are updated and reflect current scenarios. The Office has taken measures to recruit risk management staff to support both the IFRC and PMI in assessing risk change, highlighting key risks and advocating for increased control.
- PMI has requested specifically for deployment of staff who speak Bahasa Indonesia when working at district level. IFRC have recruited field coordinators in Palu and Lombok that speak and understand Bahasa Indonesia, reducing communication barriers when working with PMI and the supported communities.

3.2. Findings

Key issues and risks.

13. Issues and risks identified are categorised according to their country and department impact.

14. The following risks are identified from this review.

- **Indonesia emergency appeal and ongoing impact on planning, control and programming** – The operation is at risk of not completing within the timeframe, a further potential delay or a rush to finish the programme may increase the risk of fraud or error.
- **Cash based programme Lombok operations** – There was suspected supplier manipulation of the e-voucher redemption leading to fraud and corruption concerns, which was referred to OIAI's investigation team. A lack of reassessment of the needs of the community may have contributed to the development of the potential fraud scheme and could be repeated.
- **Human resource risks** – Attracting and hiring quality candidates for positions is challenging due to the restricted talent pool and timing. Staff in the field have increasingly taken on human resource responsibilities, which could negatively impact core delivery.
- **Procurement** – Due diligence checks on IFRC suppliers were not suitably documented, increasing the risk of working through fictitious, bogus or substandard companies.
- **Fleet**– There has been inefficient use and oversight of the use of trucks and light vehicles immediately after the disasters, with examples of under-utilised assets, a lack of clarity on all deliveries and idle trucks paid on 'standby'.
- **Bank and cash management in operations** – Financial system inputs required in the aftermath of the disasters were not fully implemented.

Other risks / issues identified

- **Agreements made during the emergency phase** – There was no audit trail for the sourcing of the land for the basecamp and the negotiation with the owner. There was confusion over what was agreed, existing IFRC liabilities, which also risked an actual or perceived conflict of interest.
- **Contract frameworks** – There were no framework agreements for regular suppliers, resulting in variable costs and additional administration overheads.
- **Missing technical roles** – The lack of securing key roles in operations, such as IFRC field finance officers, had risks impacting on operations and has increased the risk of financial mismanagement.

- **Security** – The security risk assessment for Indonesia needs to be updated.

3.3. Summary IFRC management response

15. The CCST appreciates the detail of the analysis done by the internal audit team as well as the specificities of the findings and recommendations.
16. We have developed an action plan to address the outstanding risks and many of the risks were already identified by the CCST team and action has already been taken during or since the internal audit took place. Many of the risks have been or are in the process of being mitigated. This is not to imply that there aren't very valid and important conclusions made in the report as well as the resulting recommendations which the team appreciates and are taking very seriously.
17. While some issues remain, contingency planning has been undertaken based on a risk assessment, business continuity and on scenario development to mitigate both their impact and likelihood.