



International Federation
of Red Cross and Red Crescent Societies

**OFFICE OF INTERNAL AUDIT
AND INVESTIGATIONS**

**INTERNAL AUDIT OF PAKISTAN
COUNTRY OFFICE
REPORT NO. IA-2017-8**

AUDIT PERFORMED: MAY 2017 & AUGUST 2017

REPORT TO MANAGEMENT: March 2018

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PART I INTRODUCTION & EXECUTIVE SUMMARY

1. BACKGROUND AND CONTEXT

The Pakistan Country Office (the "Office") of the International Federation of Red Cross and Red Crescent Societies (IFRC) is based in Islamabad and is part of the Asia Pacific Region. The Office main objectives to provide support to the Pakistan Red Crescent Society through the operational plans and emergency appeals.

The Pakistan Operational Plan for 2017 is budgeted for CHF 3.34 Million, with its three-main area of focus on disaster risk reduction, health; and water sanitation and hygiene. The 2017 plan involves continued focus on longer term community based development programming, organisational and staff development, and coordinated programme approach with other Partner National Societies in country. There had not been any major emergency appeal launched for the country in the past year except for a DREF (disaster relief emergency fund) of operational budget of CHF 299,911 to support families affected in the Baluchistan floods and snowfall. The response started in February 2017 and ended in May 2017.

At the time of the audit, in April 2017, the Office employed two international staff and twenty national staff. The last internal audit of the Office was performed by the Office of Internal Audit and Investigations (OIAI) in August 2014.

2. OBJECTIVE OF THE AUDIT

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

This is achieved by focusing on the following:

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

3. SCOPE AND METHODOLOGY

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

A) Oversight and Risk management

- Risk management (including the process to identify, assess and manage risk), governance and oversight.
- Coordination and organization of work, including communication.
- Legal risk management including contracts management, and integration agreements with Partner National Societies.

B) Programme and partnerships management

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

C) Operations support

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

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

4. EXECUTIVE SUMMARY

4.1 Conclusion and Summary of recommendations

Conclusion:

Based on the audit work performed, the OIAI overall assessment of the internal controls environment is that some specific control weaknesses were noted. Generally, the controls evaluated are adequate, appropriate, and effective and are likely to provide reasonable assurance that risks are being managed to achieve objectives.

The recommendations by section including the priority levels are summarized below:

| SECTION | Recommendations | | | Overall Assessment |
|-----------------------------------------------------------------|-----------------|-----------------|--------------|--------------------|
| | High Priority | Medium Priority | Low Priority | |
| OVERSIGHT AND RISK MANAGEMENT | 1 | 3 | 0 | Adequate |
| A1 Risk management, oversight and monitoring | - | 1 | - | |
| A2 Organisation, coordination and communication | - | 1 | - | |
| A3 Legal and supplementary services | 1 | 1 | - | |
| PROGRAMME AND PARTNERSHIP MANAGEMENT | 0 | 4 | - | Adequate |
| B1 Programming, planning, monitoring, evaluation, and reporting | - | 2 | - | |
| B2 Resource development and partnership management | - | 1 | - | |
| B3 Logistics, procurement and fleet | - | 1 | - | |
| B4 Security | - | - | - | |
| OPERATIONS SUPPORT | 0 | 7 | 0 | Adequate |
| C1 Finance | - | 2 | - | |
| C2 Human resources | - | 2 | - | |
| C3 Administration | - | 1 | - | |
| C4 Assets and inventory | - | 1 | - | |
| C5 Information systems | - | 1 | - | |

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|-----------------------------|---|----|---|----------|
| TOTAL AUDIT RECOMMENDATIONS | 1 | 14 | 0 | Adequate |
|-----------------------------|---|----|---|----------|

4.2 Summary of key findings

Improvement areas

Recommendations which had a primary risk relating to the audit objectives of effectiveness, efficiency, safeguarding of assets, and reporting (see Annex 3) are summarised below.

| Audit objectives | | High Priority | Medium Priority | Low Priority |
|------------------|--------------------|---------------|-----------------|--------------|
| a) | Effectiveness | - | 2 | - |
| b) | Efficiency | - | 4 | - |
| c) | Asset Safeguarding | 1 | 6 | - |
| d) | Reporting | - | 2 | - |
| Total | | 1 | 14 | - |

A summary of the high priority risks by audit objective is as follows:

Asset Safeguarding

There is one high priority recommendation (#4) with a primary risk related to asset safeguarding. To improve asset safeguarding, the office should:

- Coordinate with the Asia Pacific Legal Counsel in all communications related to legal status that the Country Office has with the National Society.
- Establish a documented risk assessment and action plan to track progress and next measures, taken into consideration the threats and opportunities for the IFRC in getting the legal status in the changing leadership in Country. This includes having local independent legal counsel who are well versed in legal status to assist the Country Office risk assessments on continued signing of the contract locally without a legal status.
- Follow up on the status of the signed service agreement with the German RC to formally documented the services requested by the PNS.

PART II DETAILED OBSERVATIONS & RECOMMENDATIONS

REPORT NO. IA-2017-8

SECTION A – OVERSIGHT AND RISK MANAGEMENT

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| A1 | RISK MANAGEMENT, OVERSIGHT AND MONITORING |
| <p>A1.1 Risk management</p> <p>The Country Office has developed a risk register as an outcome from the risk management workshop conducted in 2014. The risk register documented 77 risks (39 – High Risk, 31 – Medium Risk, 7- Low Risks) with its corresponding risk mitigation action plans spanning from 2014 to 2016. However, these action plans were not reviewed and risk register was not updated to support the risks reflected in the Country Office 2017 Operational Plan.</p> <p>The 2017 Operational Plan identified four key risks (3 – High, 1 – Low) which included reduced technical capacity of the IFRC and National Society being a risk with high impact and high probability. The lack of a systematic and continued review of risks and its action plans could adversely impact the achievement of IFRC objectives defined in the Operational Plan.</p> <p>Risk(s): Ineffectiveness; Partnerships/ reputation Cause(s): Resources/capacity; Oversight/Guidance.</p> | |
| <p>Recommendation 1:</p> <p>Review the risks and status of implementation for each risk mitigation action plans that had been established in the 2014 risk register. The aim is to identify the risks that still exists and include new risks that have emerged since 2014. The review process includes a revised action plan and timeframe. The updated risk register is reviewed at a minimum once every year, and should support the Country Office Operational Plan.</p> <p>Management Action Plan:</p> <p>Management agrees with the recommendation. A risk re-evaluation is planned in 2018.</p> <p>Risk Owner: Head of Country Office Due Date: June 2018 Priority Rating: Medium</p> | |

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| A2 | ORGANISATION, COORDINATION AND COMMUNICATION |
| <p>A2.1 Organisation</p> <p>The Country Office had performed the right sizing process on staggered basis and several Office positions have ended their contract. The right sizing process was in line with the scaling down of the Floods operations and to streamline the level of support to the NS Plans. The management had made the conscious efforts in informing staff about the right sizing process.</p> <p>The right sizing continues in 2017, and a few more positions is planned to end their contract by end of the year. In discussions, at least two more positions are ending due to lack of implemented activities and reduced requests for support from the NS. A review of the Country Office Operational Plan noted that there are planned activities from these two portfolios. There have yet to be a documented assessment to take stock on the progress of these activities, and the next action plans (i.e handover to the National Society, support from other Movement Partners) when these two portfolios ended their contracts. Further, the Country Office have yet to start planning and discussions of their 2018 Country Plan.</p> <p>Risk (s): Partnership/Reputation; Inefficiency. Cause(s): Resources/capacity; Organisational culture.</p> | |

Recommendation 2:

A consolidated plan is prepared for the period 2017-2018 (including budget estimates and analysis of administration vs programme costs) outlining how the Country Office will transition towards the “right sizing” in 2017 and 2018. This includes documenting the progress of the activities, and plans for the activities that are being handled by the portfolios who are ending their contract in 2017.

Management Action Plan:

The Country Office has reviewed its 2018 plan and this involved reviewing the types of downsizing, redefined the NS priorities in areas IFRC is supporting, and budget sustainability for the next 3 years. The Country Office organigram has been established and revised Country plan has been proposed to the Director, Asia Pacific Regional Office.

Risk Owner: Head of Country Office. **Due Date:** June 2018

Priority Rating: Medium

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| A3 | LEGAL AND SUPPLEMENTARY SERVICES |
| <p>A3.1 Contract management</p> <p><u>Contract approvals matrix and e-contract</u></p> <p>The Office started using the e-contracts system when it was first enrolled in 2015. However, the e-contract was not fully being used when drafting agreements until recently in 2017. Our sample review noted examples of contracts not using the correct template and inadequately vetted as per the Contract Approval Matrix (CAM).</p> <ul style="list-style-type: none"> • Project Agreement with budgets above CHF200K was not escalated to AP Region for signing by the Director. • The 2017 project agreements were established outside the e-contract system and agreements standard terms were changed without consultation of the Asia Pacific Regional Legal Counsel. <p><u>Contract database</u></p> <p>The Office has a manual consolidated contract database that is currently being maintained by the Procurement Department. At the time of audit, this contract database has yet to be updated and uploaded in the e-contract as required.</p> <p>Each department also has a list of contracts related to their respective departments. This list was extracted from the central database. In discussions, there is a lack of understanding and accountability on the ownership of the contract review and extensions. There were instances of contract review and extensions was only being initiated after the contracts has ended (example: travel agency service agreements)</p> <p>Risk(s): Legal liabilities; Asset/financial loss. Cause(s): Compliance; Procedures/guidelines.</p> | |
| <p>Recommendation 3:</p> <p>a) A reminder is sent to staff who are designated as contract initiators, to start using the e-contract system when initiating IFRC related contracts. This include assessing the needs for a refresher e-contract training for contract initiators.</p> <p>b) Perform a review of the manual contract database to ensure the details are correct. Once the list is confirmed, upload all current contracts into the e-contracts database and develop a timeframe to flag contract reviews before reaching its due dates.</p> | |

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
| <p>c) Staff involved in the contract management process (i.e. Program Managers, Finance & Administration Unit) should refer to the Contract Approval Matrix to understand their respective roles in relations to contract management.</p> <p>Management Action Plan: Management agrees with the recommendation.</p> <p>Risk Owner: Head of Country Office Due Date: June 2018 Priority Rating: Medium</p> | | |
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| <p>A3.2 Other legal matters</p> <p>REDACTED</p> <p>Risk(s): Legal liabilities; Asset/financial loss. Cause(s): Compliance; Procedures/guidelines.</p> |
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| <p>Recommendation 4: REDACTED</p> <p>Management Action Plan: REDACTED</p> <p>Risk Owner: Head of Country Office Due Date: June 2018 Priority Rating: High</p> |
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SECTION B – PROGRAMME AND PARTNERSHIP MANAGEMENT

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| B1 | PROGRAMMING, PLANNING, MONITORING, EVALUATION AND REPORTING |
| <p>B1.1 Project management</p> <p>The 2017 Country Office Operational Plan has identified several Area of Focus (AOF). Community Based Health and First Aid (CBHFA) and Basic Health Units were documented as AOF for the Health programmes. In our discussions, the National Society has not fully shown interests in engaging the plans described for the Health programmes. The auditor was informed that the NS Health team are interested in driving the NS immunization and blood bank initiatives, and have a different concept of the CBHFA project as compared to the concept promoted by the IFRC. The lack of consensus on programmatic approach could negatively impact programme continuation and achievement of the IFRC Country objectives in their support to the NS.</p> <p>Risk(s): Ineffectiveness; Inefficiency. Cause(s): Oversight/guidance; Resources/Capacity</p> | |
| <p>Recommendation 5: A programme risk register is developed to systematically identify the risks affecting this project. Further, develop risk mitigation action plan and assess the outcome on periodical basis. The action plans may include strategic discussions among Country Office management and Senior Management of the NS on the future of this programmes and other programmatic support. The outcome from the risk register is discussed with Health Unit in Asia Pacific Regional Office and decisions are documented for future programme and Country Office operational planning.</p> <p>Management Action Plan: The Country Office has initiated dialogues with the NS, to address the inconsistencies related to the Health programmes, but disagreement persists. The technical Health teams from Asia Pacific Regional Office and Geneva is</p> | |

planning for a visit in 2018 to continue with the discussions, and to have a clearer, collective analysis on the future of the Health programmes in country.

Risk Owner: Programme Manager and Head of Country Office

Due Date: June 2018

Priority Rating: Medium

B1.2 Planning, monitoring, evaluation and reporting (PMER)

The PMER Officer position for the Country Office is currently vacant. Historically, this role has been supported by short term delegates. At the time of this audit, a PMER delegate had been identified to support the Office, however due to complications and lengthy visa approval, the support from the PMER delegate had to be performed by remote from the Asia Pacific Regional Office. This caused difficulties in engagement with in country counterparts in developing their planning documents and national society PMER capacity building. In discussion with the Management, the PMER position will continue to be budgeted for in the Country Plan and for the recruitment to be based in the country.

Risk(s): Inaccurate/late reporting; Ineffectiveness.

Cause(s): Resources/capacity; Oversight/guidance.

Recommendation 6:

Perform an updated review of the PMER role in the current country office structure and expected role in NS capacity development in PMER. The review should include budget estimates, and factor in the risks of current visa complications, if decisions is to recruit a delegate for this position.

Management Action Plan:

Management agrees with the recommendation. A strategy is being discussed with the NS, which includes a 6 months local resources before any international recruitments is considered.

Risk Owner: Head of Country Office **Due Date:** June 2018

Priority Rating: Medium

B2

RESOURCE DEVELOPMENT AND PARTNERSHIP MANAGEMENT

B2.1 Resource development

The programme support to the Pakistan Red Crescent Society (PRCS) is covered mainly through carry over unearmarked funds from the Floods Appeal, that has been closed in April 2016. For 2017, support utilizing the unearmarked funds is likely to continue, however, a long-term funding plan still needs to be developed, to ensure sustainability of existing programme support to the National Society. Currently, there are several ongoing negotiations with potential donors.

As part of the resource mobilisation efforts, the position of Proposal Writing & Marketing Specialist was recruited for contacting potential donors and developing proposals to obtain funding. The function also worked in close coordination with the PRCS in developing their fundraising unit. At the time of this audit in August, this position is on his end of contract.

In discussions, the role of resource mobilisation is with the Acting Head of Country Office who are working with the PRD Asia Pacific for funding opportunities and call for proposals. However, the acting HoCO is ending his contract and the role of resource mobilisation for the country needs to be re-established.

Risk(s): Partnership/Reputation; Ineffectiveness

Cause(s): Resources/Capacity

Recommendation 7:

The role of resource mobilisation plan is clearly established to ensure smooth handover of existing funding plans. Meanwhile, the consolidated resource mobilisation plan is updated by merging the existing funding plan with the funding proposals tracking sheet, and ensuring all soft pledges are registered. The consolidated plan should be used by the programme managers and finance team to highlight existing funding gaps, develop action plans to address these gaps, and be regularly updated (e.g. monthly).

Management Action Plan:

The Resource Mobilisation strategy is still targeting exclusively project levels. The Country Office is working on a resource mobilisation plan supporting a wider strategy, country office plan.

Risk Owner: Head of Country Office **Due Date:** June 2018

Priority Rating: Medium

B3

LOGISTICS, PROCUREMENT AND FLEET

B3.1 Procurement

Between January 2016 and March 2017, the local procurement of 'Relief items, Construction, Supplies' amounted to CHF 913,669, of which CHF 337,490 were spent through the working advance to National Society (WANS). Our interviews with personnel from procurement, logistics, finance and operations, and sample testing of 14 transactions, noted the following observations:-

Supplier Pre-qualification and Due Diligence

According to the procurement manual, when sourcing goods or services, care should be given to vendor due diligence and risk assessment. Each application for registration shall be evaluated by a procurement officer who has the knowledge and capability to assess supplier applications. However, the list of documents required from the supplier is not clear. Besides, the procurement team is not adequately trained to assess the supplier application and documentation. The pre-qualification documentation and the verification is inadequate to ensure that providers comply with the business, financial and ethical standing. The vendor acceptance phase is not properly documented, and background checks are not systematically performed prior the addition of new vendors to the supplier master data.

Operation Needs Assessment and Specifications

In April 2016, the Pakistan RC locally procured 8,700 household water filters ('HHF'), for a total amount of PKR 30.4 Million (CHF 291,277). Out of the 8,700 HHF procured, 4,700 (CHF 157,356) were funded by the 2015 IFRC flood emergency appeal (MDRPK011). The flooding caused damage to more than 4,111 villages, affected 1,572,191 people with 238 reported deaths and 232 persons injured. Access to safe drinking water was a priority in the affected areas, and the needs assessment indicated that distribution of household water filters was the preferred course of action. The objective in the plan of action was to assist 800 households and the final report showed that 524 families were assisted in 2015. Our analysis on the reports noted that the replenishment of the HHF is significantly more than the HHF distributed; indicating the procurement is not justified by operational needs.

In May 2017, the HHF were still in the inventory of the NS. This procurement accounts for 28.5% of the appeal budget. Furthermore, instead of using standard specification, the HHF specifications were tailored. Finally, the analysis of the procurement file evidenced that the competitive bids was inadequate, and the purchase order was not pre-authorized by the Regional Logistics Unit (i.e. breach of procedure).

Accounts Payable

The IFRC Finance Department has developed an accounting process designed to ensure transparency of the payable transactions (i.e. identification of the supplier) and the matching principle. This process involves two accounting documents: one document is to record the supplier invoice (i.e. 'SPI') and the other is to record payment once the payment order is made (i.e. 'PBN'). The accounting scheme shall be the following:

1. the SPI shall debit expenses and credit the supplier account (account payable sub-ledger);
2. the PBN shall debit the supplier account and credit the bank (assets).

The internal audit observes that the Office has implemented the above procedure, but the supplier accounts are not consistently used. Significant procurement transactions are recorded to expenditures solely using PBN. Between January 2016 and March 2017, the procurement of 'Relief items, Construction, Supplies' amount to CHF 913,669, of which CHF 162,656 (18%) was expended without supplier accounts (i.e. PBN). During the same period, consultant costs accounted for CHF 43,901, of which CHF 26,679 (61%) was recorded using solely PBN.

Segregation of Duties

The segregation of duties is an element of the internal control system which ensures no employee or group of employees should be in the position to both perpetrate and to conceal errors or fraud in the normal course of duties.

This means that the process of goods or services requisitions; placing orders; confirming goods reception and accounting for the invoice in books should be performed by different individuals. Most importantly, the persons reviewing and approving the payment should be independent from all the persons previously involved in the process.

Our review of this process observed that duties were not adequately segregated, when the procurement officer or the person ordering the goods and services are also the person reviewing invoices and preparing payment requests. Furthermore, the accounts payable accountant is generally responsible for reviewing the invoices before accounting them and validate what is known as the 4-way match: matching the requisition, order, receipt and invoice to highlight any differences in the price or quantities of the goods or services required, ordered, received and invoiced. This control should ensure that the organisation does not pay for goods or services that were not required, ordered or received. In our review, this process is not being followed to ensure proper segregation of duties.

Risk(s): Inefficiency; Ineffectiveness.

Cause(s): Compliance; Oversight/guidance.

Recommendation 8:

- a) A supplier's pre-qualification process, involving several departments (e.g. purchasing, finance departments, operations) is put in place before suppliers are added to the pre-approved list of suppliers. The pre-qualification process should include verification such as technical suitability, quality certification, independence from IFRC personnel, financial stability, reputation, liability insurance and HSE certification. The logistics team should be trained to ensure they have collective knowledge and capacity to assess supplier applications and documentation;
- b) The procurement of relief items, by the Office or the NS, should be based on operational needs, supported by distribution plans, to avoid surplus procurement and obsolescence of goods in the warehouses. The procurement must be fully authorised by the RLU before the Purchase Order can be issued. The NS procurement team are trained on IFRC policies and procedures to ensure our standards and principles (i.e. transparency and competition) are always adhered to.
- c) All procurement above CHF 1,000 should be accounted in the accounts payable sub-ledger, using active supplier codes. Before using a Purchase Order, the procurement officer confirms with the Finance Department that the supplier is registered in the master data.
- d) The Office implement and document a manual 4-way match:
 - The original copy of the logistics requisition (LR) and the purchase order (PO) are communicated by the procurement officer just after the signature of the purchase order, the documents are maintained in an 'Open PO' in-tray by the Finance Department;
 - A copy of the Goods or Service Received Note is communicated by the Logistics Department to the Finance Department;
 - The invoices are received, reviewed and accounted by the Finance Department (4-way match), exceptions are reported to the procurement team (invoice w/o PO or GRN);
 - The invoices are validated by the budget holder before they are sent for payment.
- e) Performed a review of the roles of requesters, procurement, logistics and finance to ensure adequate segregation of duties.

Management Action Plan:

Management agrees with the recommendation. The Country Office sees a definite need for a logistic development delegate, and logistic support to NS based from the outcomes of the Regional Office technical assessment. However, the logistic support has so far been refused by the NS.

Risk Owner: Senior Administration and Logistics Officer

Due Date: June 2018 **Priority Rating:** Medium

SECTION C – OPERATIONS SUPPORT

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| C1 | FINANCE |
| C1.1 Partner working advances and cash transfers | |
| <p>The Country Office and the National Society had signed the 2017 project agreements and had agreed for the change in working advances reporting from the standard monthly reporting to quarterly reporting. This change means that NS is submitting high volume of working advance report for IFRC verification at the end of the 3rd month of each quarter.</p> <p>This changes in reporting timeframe brought upon potential risks of affecting the quality of validating supporting documents both by programme managers and finance when receiving reports and supporting documents in high volume. The likelihood of potential errors when validating and falsified documents went undetected is increased when verifications are made on larger volume of transactions.</p> <p>Further, the higher volume of transactions that need to be validated and booked in CODA within the financial closing dateline, causes unnecessary higher workload instead of spreading out the volume throughout other months. This would also implicate the next release of working advances requests.</p> <p>Risk(s): Inaccurate/late reporting; Asset/financial loss. Cause(s): Oversight/guidance; Procedures/guidelines.</p> | |
| <p>Recommendation 9:</p> <p>Review the existing agreements that were approved outside the e-contract system and assess in consultation with the Asia Pacific Legal Counsel, the possibility for amendments if the terms and conditions is inadequate to address legal risks. In future, all agreements with National Society are prepared in the standard IFRC templates, with standard terms and conditions.</p> <p>Management Action Plan:</p> <p>Management agrees with the recommendation. The Country Office shall stop the working advance that was practiced in the 2017 and will implement the working advance procedure, as per IFRC standards.</p> <p>Risk Owner: Senior Finance Manager Due Date: January 2018 Priority Rating: Medium</p> | |
| C1.2 Finance supporting documentation | |
| <p>A sample of finance transactions were selected for testing to assess its completeness, accuracy and if adequate supporting documentation was attached to substantiate the transaction. Our review noted on the following:</p> <ul style="list-style-type: none"> • There were a few examples of incomplete supporting documentation on file (e.g. contracts, correspondences and note to file not attached), increasing the risks of validation performed without substantiated information. • No segregation of duty in the reconciliation of staff salary advance. The document is being prepared and verified by Finance Unit. There is no documented evidence that the Human Resource is involved in the verification process. <p>Risk(s): Asset/financial loss; Fraud/misuse. Cause(s): Oversight/guidance; Procedures/guidelines.</p> | |
| <p>Recommendation 10:</p> <p>Develop a checklist for programme managers and Country Office finance staff to help them to review the quality and validation of documents. The checklist should include brief translations of documents, completion of procurement</p> | |

documents, proof of payment, distribution lists and documented explanations/note to file for transactions that require further explanation.

Management Action Plan:

Management agrees with the recommendation.

Risk Owner: Senior Finance Manager **Due Date:** June 2018

Priority Rating: Medium

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| C2 | HUMAN RESOURCES |
| C2.1 Starters, leavers and performance management | |
| <u>Handovers</u> | |
| <p>The previous Senior Coordinator Administration and IT official end of contract and asset clearance, was completed in 23 December 2016. The Finance and Administration Officer was temporarily assigned as the administration focal person effective 26 December, pending the official structure of the Country Office for 2017. The IT portfolio was directly handled by the IT Manager. Our review noted the official handover document and debriefing were not immediately performed to the successors by the former staff.</p> <p>In our discussions, the auditor been informed that the former Senior Coordinator Administration and IT was specifically asked for debrief and official handover directly to the HoCO. After the staff left, a separate debriefing was performed between the HoCO to the successors of the administration and IT portfolios. It is understood that it was Management decision to perform this mode of handover. However, crucial information was not immediately available for the successors to enable smooth continuation and prioritization on any outstanding issues (example: summary of outstanding issues and its progress, completion and location of file, reports due and its progress).</p> | |
| <u>Leavers process</u> | |
| <p>The Human Resource have started using the IFRC e-Boarding online platform to initiate the exit process for departing staff. In our discussions, the process for the exiting staff is considered complete with revocation of the IFRC staff email, after the appraisal process is finalised between the line manager and staff.</p> <p>There had been a situation of delays in completing the online exit process of the previous Senior Coordinator Administration and IT. This was due to the appraisal process was not finalised prior to the staff exit. The auditor was informed that the line manager was already on his planned leave when the handover checklist is being completed. Meanwhile, access to the former staff email and other online system connected to the staff email had to remain opened. This was to allow the staff to still have access and sign off the online appraisal. The former staff had to be contacted and was asked to finalise the signing off the online appraisal, several weeks after her end of contract.</p> | |
| Risk(s): Inefficiency; Ineffectiveness | |
| Cause(s): Procedures/Guidelines; Compliance; Organisational culture | |
| Recommendation 11: | |
| <p>a) Should the Management decided to perform similar mode of handover in future, an immediate debriefing is performed to the successors to enable any outstanding issues to be sorted out before the staff leaves. This includes handover notes that adequately address status of outstanding tasks and respective priorities, to identify issues that require immediate action.</p> <p>b) Establish a clear time plan for completion of each of the staff exit process. This includes communicating/coordinating the leave days of those involve in the exit process with the staff final end of contract. This is to allow sufficient time for handovers and completion of the key processes.</p> | |

Management Action Plan:

The Management shall assess these recommendations when the Human Resource Senior Officer return from maternity leave in spring 2018.

Risk Owner: Head of Country Office

Due Date: June 2018

Priority Rating: Medium

C2.2 Labour Law, staff regulations and contracting

Salary scale

The Office salary scale and staff benefits for national staff was established in 2014. There have yet to be a newly documented review, benchmarking and/or enrolled in technical consultation of the current salary scale with the Asia Pacific Regional Human Resource.

Risk(s): Inefficiency; Legal Liabilities.

Cause(s): Procedures/Guidelines; Compliance; Oversight/Guidance

Recommendation 12:

Management decisions involving salary revisions are supported by a consultative process and such decisions are documented. This includes documenting technical consultation with legal advisor and Human Resources Unit, Asia Pacific Regional.

Management Action Plan:

Management agrees with the recommendation.

Risk Owner: Senior Human Resource Manager **Due Date:** June 2018

Priority Rating: Medium

C3

ADMINISTRATION

C3.1 Administrative policies and procedures

Administration guidelines

The Country Office Administration Unit has not yet developed a local administration memo that should provide guidance in relation to services such as visa arrangements and travel support to the incoming visitors and delegates of the Country Office and integrated PNS. The audit noted on examples of requests for visa applications for Pakistan could not be processed on time as requestors were not sufficiently informed on the lead days and status on their visa applications.

Risk(s): Inefficiency; Ineffectiveness

Cause(s): Oversight/guidelines.

Recommendation 13:

Establish a local administration memo on visa and travel advisory, that should be revised when there are new updates. The memo should be communicated to all Administration counterparts in other Country Offices and Asia Pacific Regional for further dissemination to other staff who plans to travel to Pakistan.

Management Action Plan:

Management agrees with the recommendation.

Risk Owner: Senior Administration Manager

Due Date: June 2018

Priority Rating: Medium

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| C4 | ASSET AND INVENTORY |
| <p>C4.1 Asset/inventory management and safeguarding</p> <p><u>Asset and Inventory</u></p> <p>The Office has insurance for the Office asset and inventory, and premium is being paid based on the value and items listed in the asset and inventory register. However, the reconciliation of the inventory has not been performed/validated by someone independent from the person responsible for the inventory. It was acknowledged that the existing insurance agreement for the Office is expiring in November 2017.</p> <p><u>Disposal and Archiving</u></p> <p>The office had performed several batches in disposal of assets by way of donation to the National Society and selling off locally. Items that have been identified as broken and no longer functioning are being removed from the office compound. A formal authorisation letter for the office assistants and the list of items are being prepared for the office security guard's reference, when the staff remove these broken items from the office compound. In discussions, the Office leave the decisions to the office assistants to decide on the scrapping methods of the broken items once it was removed from the office premise. It was also observed that the Office still retain old documentation files which are pending further action for archiving and disposal.</p> <p>REDACTED</p> <p>Currently, the Office does not have a local disposal policy that is based on local laws of the country and documented research on available scrapping/ disposal methods.</p> <p>Risk(s): Asset/financial loss; Legal liabilities</p> <p>Cause(s): Oversight/guidelines.</p> | |
| <p>Recommendation 14:</p> <p>a) A physical inventory check is performed at least twice a year and is signed by two persons as evidence that the register matches the physical assets. The asset listing is updated with the latest details when renewing the insurance policy.</p> <p>b) Develop an asset retention and disposal policy based on the local laws and documented advise from the local legal advisor. The local policy is disseminated to all staff when finalised.</p> <p>Management Action Plan:</p> <p>Management agrees with the recommendation.</p> <p>Risk Owner: Senior Administration Manager Due Date: June 2018 Priority Rating: Medium</p> | |

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| C5 | INFORMATION SYSTEMS |
| <p>C5.1 IT management</p> <p>The Communications Unit has a video editing equipment which was purchased 2 years ago, but was never used. The MAC branded equipment requires a special software and license that need to be purchased for it to be utilised. A review of the Letter of Purchase Requisition noted that the license and software was never budgeted when the equipment was purchased.</p> <p>During our discussions, the equipment is considered obsolete as newer version of the equipment is available in the market. Donation to the National Society was considered as not a preferred option as the equipment requires a technical skill which the NS currently does not have. The machine is registered in the IT equipment register and Management is considering scrapping the equipment.</p> | |

Risk(s): Asset/financial loss; Inefficiency.

Cause(s): Resource/capacity; Compliance.

Recommendation 15:

A documented assessment is performed on the costs and benefits of the equipment, and this includes the various disposal options of the machinery either by selling it locally as is basis, selling it to entities who might already have the software, donation, scrapping etc.

Management Action Plan:

Management agrees with the recommendation.

Risk Owner: IT Manager

Due Date: June 2018

Priority Rating: Medium

PART III ANNEXES

ANNEX 1 - RISK RATINGS

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

ANNEX 2 - AUDIT ASSESSMENT LEVELS

| Assessment Category | Assessment Description |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Few/best practice improvements recommended | Few/best practice improvements are recommended. Generally, the controls evaluated are adequate, appropriate, and effective to provide <i>reasonable assurance</i> that risks are being managed to achieve objectives. |
| Some/moderate improvements needed | Some/moderate specific control weaknesses were noted. Generally, the controls evaluated are adequate, appropriate, and effective and are <i>likely to provide reasonable assurance</i> that risks are being managed to achieve objectives. |
| Numerous/major improvements needed | Numerous/major specific control weaknesses were noted. The controls evaluated are <i>unlikely to provide reasonable assurance</i> that risks are being managed to achieve objectives. |
| Significant/critical improvements needed | The controls evaluated are not adequate, appropriate, or effective and <i>reasonable assurance cannot be provided</i> that risks are being managed to achieve objectives. |

ANNEX 3 – RISKS

The OIAI report lists the potential risks, with the *primary or major* risk listed first.

| Audit Objective | Risk Category | Risk Description |
|--------------------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Effectiveness | Ineffectiveness | The risk that the timely and complete achievement of the main objectives is compromised. |
| Efficiency | Inefficiency | The risk that the objectives are not achieved by efficient means, which may result in additional time, costs or resources. |
| Asset Safeguarding | Asset/financial Loss | The risk that of not insignificant financial or asset loss to the organization. |
| | Fraud/misuse | The risk of fraud or misuse of IFRC assets resulting in financial loss and/or impacting reputation. |
| | Legal liabilities | The risk that there are legal penalties, or other liabilities resulting in financial and/or other losses to operations, assets or reputation. |
| | Partnerships/reputation | The risk that the IFRC's reputation is negatively impacted, affecting partnerships, public perceptions and operations. |
| | Security/safety | The risk that physical IFRC assets (including personnel) are not adequately safeguarded resulting in injury, death or other loss. |
| Reporting | Inaccurate/ late reporting | The risk that reporting is not complete, timely, or accurate, impacting the decision making process, and/or transparency and accountability to stakeholders. |

ANNEX 4 - CAUSES

The cause is the underlying reason why the issue arose. Causes have been categorised as follows:

| Cause Category | Cause Description |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Procedures/guidelines | Lack of procedures or guidelines that provide criteria regarding expected and acceptable behaviour and action. |
| Compliance | Lack of compliance with established procedures. |
| Oversight/guidance | Lack of adequate oversight or guidance provided. |
| Resources/capacity | Lack of resources to adequately implement, or lack of required capacity (technical or otherwise) to perform the task effectively. |
| Organisational culture | An embedded organisational culture, or lack of awareness on the relevant issue. |
| Other | Other causes which may include external factors which are outside the control of the entity. |

ANNEX 5 - ABBREVIATIONS

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|------|------------------------------------------------------------------|
| CHF | Swiss francs |
| DREF | disaster relief emergency fund |
| IFRC | International Federation of Red Cross and Red Crescent Societies |
| M&E | monitoring and evaluation |
| MENA | Middle East and North Africa |
| OIAI | Office of Internal Audit and Investigations |
| PEAR | project expenditure approval request |
| PMER | planning, monitoring, evaluation and reporting |
| PNS | partner National Society |
| PPP | programme/project planning |
| RD | resource development |
| VAT | value added tax |