



International Federation  
of Red Cross and Red Crescent Societies

**OFFICE OF INTERNAL AUDIT  
AND INVESTIGATIONS**

**INTERNAL AUDIT OF THE  
ANDEAN COUNTRY CLUSTER  
REPORT NO. IA-2017-9**

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## PART I - INTRODUCTION & EXECUTIVE SUMMARY

### 1. BACKGROUND AND CONTEXT

The role of the IFRC country cluster based in Lima, Peru is to support humanitarian work being performed in the Andean region. Since 2016, the operational plan has grouped together five countries: Peru, Bolivia, Ecuador, Colombia and Venezuela.

The key function of the cluster is to provide technical support to the related national societies of these five countries. The total 2017 budget for implementing this strategy is CHF 348,253. Work is underpinned by the strategic objectives set out in the Inter-American Framework for Action (IAFA) for 2016-2020.

The Andean region has been significantly affected by recent disasters (March 2017 Peru Floods and the April 2016 Ecuador 7.8 magnitude earthquake) resulting in the scale up of local operations and the expansion of the IFRC sub-office in Quito.

The Country Cluster Support Team in Lima (Andean CCST) also acts as a focal point for other countries in South America following DREF operations and emergency plans of action; continuing national societies programme support after the initial disaster response.

The Head of Country Cluster (Andean Countries) reports directly to the Regional Director of the Americas Regional Office (ARO). By September 2017, 26 individuals are employed as delegates, national staff or consultants for the CCST.

Staff either work specifically on disaster response/with a national society or their time and focus is apportioned based on the country or project. One officer stationed in Lima undertakes the role of analyst for South America, where documentation from other regional cluster (South America) is received for review.

Staff are based as following:

- Cluster and Peru Emergency Operation: a Head of Country Cluster (Andean Countries), three delegates, 9 national staff and one intern;
- Ecuador Office: 1 co-ordinator, 4 delegates, 1 regional staff, 2 national staff
- Venezuela: 2 staff on loan
- Colombia: 1 delegate, 2 national staff

This scheduled audit was part of the 2017 Internal Audit plan approved by the Secretary General.

Active disaster response operations overseen by the Andean CCST and/or DREF Officer:

Coding	Appeal Name	Overview of the appeal	Target no of beneficiaries	Operational budget (CHF, thousands)
MDRPE012	<b>Peru: Flood</b>	DREF and emergency appeal	35,000	<b>DREF – 400k</b> <b>First appeal - 4,740k</b> <b>Second appeal - 2,348k</b>
MDREC012	<b>Ecuador: Earthquake</b>	DREF and one emergency appeals	138,264	<b>DREF – 406k</b> <b>First appeal - 18,351k</b> <b>Revised appeal - 10,621k</b>
MDRVE003	<b>Venezuela: Operational support</b>	First aid or emergency healthcare/psychosocial support	10,000	<b>235k</b>
MDRCO013	<b>Colombia: Population movement</b>	Supporting the national society to provide basic health care, for hygiene promotion, food security, non-food items and restoration of family links.	5,000	<b>236k</b>
MDRCL013	<b>Chile: Wildfires</b>	National society to provide cash transfers, NFIs, WATSAN and psychosocial support	2,000	<b>529k</b>

MDRAR013	<b>Argentina: Floods</b>	Hygiene promotion, access to first aid, WATSAN and psychosocial support	3,300	<b>245k</b>
MDRBR008	<b>Brazil: Yellow Fever</b>	Health and care and water, sanitation, and hygiene promotion actions	26,100	<b>201k</b>
MDRBR009	<b>Brazil: Floods</b>	Livelihoods, food nutrition, water and sanitation and health activities	9,000	<b>234k</b>

## 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

The Internal audit of the Andean region Cluster Office highlighted many improvement opportunities that are critical for the successful achievements of the Cluster Office objectives. These are mainly related the effectiveness of the management of legal risks, Logistics and procurement risks, financial risks and Human Resources related risks.

The Office of Internal Audit and Investigations assessed the overall level of internal control environment as being limited. As such, the achievements of the Cluster Office objectives are at risk.

### 4.2 Summary of recommendations

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

SECTION	Recommendations		
	High Priority	Medium Priority	Low Priority
<b>OVERSIGHT AND RISK MANAGEMENT</b>	<b>2</b>	<b>1</b>	<b>0</b>
A1 Risk management, oversight and monitoring		1	
A2 Organisation, coordination and communication	1		
A3 Legal	1		
<b>PROGRAMME AND PARTNERSHIP MANAGEMENT</b>	<b>1</b>	<b>3</b>	<b>0</b>
B1 Programming, planning, monitoring, evaluation, and reporting		2	
B2 Resource development and partnership management	-	-	-
B3 Logistics, procurement and fleet	1		
B4 Security		1	
<b>OPERATIONS SUPPORT</b>	<b>3</b>	<b>8</b>	<b>2</b>
C1 Finance	1	4	
C2 Human resources	2	2	1
C3 Administration		1	
C4 Assets and inventory			1
C5 Information systems		1	
<b>TOTAL AUDIT RECOMMENDATIONS</b>	<b>6</b>	<b>12</b>	<b>2</b>

### 4.3 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	1	3	1
c)	Asset Safeguarding	5	6	1
d)	Reporting	-	1	-
<b>Total</b>		<b>6</b>	<b>12</b>	<b>2</b>

The Andes CCST has been overseeing operations and set programmes under their remit in a committed manner. We found the team were aware of the operational risks and that most of these risks were being managed (informally). This is in the context of working with national societies in the Andes region whose governance practices have been called into question, with limited capacity to immediately implement better practices.

The head of Andes CCST has been in post since January 2014 with a stable and supportive team, who continue to develop existing systems and are open to continuous improvement. The team/systems had to evolve due to the growth in the number of programmes through 2016/17.

Yet, there were fundamental inadequacies in compliance to expected controls in local support services, exposing the Federation to significant risk, which requires immediate redress. There are four key areas of work within support services that could significantly expose IFRC to unnecessary risk. These areas concern, a) poor clarity and design of roles and responsibilities with unclear reporting lines; b) questions on the legality of agreements and lack of contracts with staff and suppliers; c) limited review and monitoring of suppliers to build up clear profiles and, d) incomplete or delayed monthly financial checks.

The key points are:

- **An unclear mix of roles, responsibilities and reporting lines** across the CCST support service teams, increasing risk around the authority to commit the IFRC to costs or services, segregation of duties, technical or managerial reporting lines and clarity over the ownership and oversight of important checking processes. This has also led to key tasks being missed (observation/recommendation # 2);
- **Questions around the legality of agreements or frameworks** with certain service providers or staff due to the lack of contract in place, type of contract or undocumented supplementary adjustments. This increases the risk of noncompliance with national laws, staff grievances or ongoing liabilities that could have financial or reputational consequences (observation/recommendations #3, #13 and #16).
- **Insufficient history or knowledge of the local market and suppliers as well as limited supplier due diligence practices** that could lead to missed opportunities, reuse of poor or rogue suppliers or affect future implementation of operations. The risk is increasing due to the growth in size and complexity of recent programmes in the region, such as the Ecuador earthquake and Peru Floods operations (observation/recommendation #6 and partial #8).
- **Incomplete or delayed monthly financial checks**, including the expected regular review and clearance of balance sheet accounts, timely transaction processing to avoid errors or rushed input and the reduced timely and in-depth scrutiny of national society transactions. This increases the risk of continued poor practice and, at worst, the misappropriation of funds (observation/recommendation #8).

The CCST agreed that these areas require resolution and have been positive in reaction to these findings. The Head of CCST has attempted to rectify some of these issues by seeking local advice and guidance, particularly on contracting.

Actions in this report will help improve the control environment. Some of the issues and control weaknesses highlighted in this report could have been resolved if effective monitoring and oversight mechanisms were timely performed by the Americas Regional Office.



## **PART II - DETAILED OBSERVATIONS & RECOMMENDATIONS**

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## SECTION A – OVERSIGHT AND RISK MANAGEMENT

<b>A1</b>	<b>RISK MANAGEMENT, OVERSIGHT AND MONITORING</b>
<p><b>A1.1 Risk management</b></p> <p><u>Risk identification, assessment and management</u></p> <p>Risk management activities are conducted informally in the Andean CCST (Lima) and Ecuador Country office. There is no documented risk analysis. Consequently, a risk register has not yet been established to systematically manage the key risks for the offices in Lima and Ecuador.</p> <p>The audit noted risks which had been already identified by the Head of Country Cluster and staff, but no action plan had been developed to mitigate the risk and monitor the control.</p> <p><b>Risk (s):</b> Inefficiency <b>Cause(s):</b> Resources/capacity; Organisational culture</p>	
<p><b>Recommendation 1</b></p> <p>Risk management practices are formally introduced across the Andean CCST (in Lima and Ecuador offices). A consolidated risk register for each office is established and maintained, with risk mitigation actions developed. The risk register is regularly monitored and updated (at least every six months) to ensure that key risks are being managed. This risk register should also be shared with the Americas Regional office, as risk will also relate to support services.</p> <p><b>Management Action Plan:</b></p> <p>Before 31 December 2017, the risk register will be made using the same ARO format and will be reviewed every 6 months beginning in January 2018 (HCCST).</p> <p><b>Risk Owner:</b> Head of Country Cluster (Andean Countries) and Operations Manager, Ecuador <b>Due Date:</b> January 2018 <span style="float: right;"><b>Priority Rating:</b> Medium</span></p>	

<b>A2</b>	<b>ORGANISATION, COORDINATION AND COMMUNICATION</b>
<p><b>A2.1 Reporting Lines, Roles and Responsibilities</b></p> <p><u>Roles, responsibilities and reporting Lines</u></p> <p>The roles and responsibilities, as well as reporting lines of some staff in Andean CCST are not in accordance with the established organisational chart and/or job description. Furthermore, the managerial and technical reporting lines are unclear for some staff. The following has been noted:</p> <ul style="list-style-type: none"> <li>• The Senior Finance Analyst is performing tasks of a Finance Manager, being the main focal point for the finance unit in Lima. Therefore, her actual role, responsibility, tasks and reporting lines are currently mixed;</li> <li>• The Administration Assistant is procuring items for the office and at the same time preparing the payments (treasurer function) with a dual reporting line to the Administration/HR officer and to the finance unit (it is unclear whether she is reporting to finance officer or someone else in the finance unit);</li> <li>• The newly recruited Programme Finance Officer for the Peru operations has unclear managerial and technical reporting lines;</li> <li>• The Programme Logistics Assistant managerial and technical reporting lines also needs to be confirmed;</li> </ul>	

- It is not clear who should set objectives and complete the performance appraisal for either programme logistics or programme finance staff; and,
- For purchasing, the roles and responsibilities of the Administration/HR Officer and the Programme Logistics Assistant also lacks clarity. More detail is required on who should validate/verify procurement files.

The above leads to inefficiencies and misunderstandings regarding roles and responsibilities among staff.

**Risk (s):** Inefficiency

**Cause(s):** Resources/capacity; guidance

### Recommendation 2

Roles, responsibilities and managerial and technical reporting lines are reviewed for support services national staff (HR, Administration, Finance and Logistics), ensuring clarity and appropriate segregation of duties. Job descriptions are amended accordingly and an organisational chart reflecting those changes is prepared and shared with all staff.

#### Management Action Plan:

- By 30 November, a new organizational chart that includes the following positions in the financial area will be submitted for approval to the Regional Director: 1 financial manager, 1 treasurer, 1 finance assistant and 2 officers (operation floods Peru and programmes). The current controller service will be decided by the Regional Finance Unit. This will allow to situate the treasurer position in Finance and separate it from Administration. The financial manager will be the line manager of the finance officers. (HCCST).
- Once the organizational chart with the new control lines has been approved, all the Job Descriptions will be defined and updated and, based on the legal evaluations, the contracts will be adjusted by 31 December. (HCCST and HHRR Officer).
- The logistics assistant for Operation Peru completed her contract in October. These functions are now performed by administration.
- As of October 1, all purchase orders are made by administration and signed by the HCCST.

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**Priority Rating:** High

**A3**

**LEGAL**

### A3.1 Contract management

#### E-Contract database

Contracts and agreements are held and maintained in different units: HR, Administration and Programmes. However, contracts have not consistently been prepared and submitted for validation and approval through the e-contract database (e.g. consultancy, house rental contracts).

#### Contract approvals and signing authority

The review and approval of contracts is important and should ensure that risks associated with a contract are understood and managed. However, the Contract Approval Matrix (CAM) has not been shared with all staff working in the cluster for guidance on contracting validation and approval responsibilities.

According to the contracting procedures, contracts and purchase orders should be agreed by the signing authority indicated in the CAM. The signing authority may delegate this responsibility, for example, on a category of contract or

ceiling contractual amount. It was noted that some purchase orders have been signed off by staff, who have not formally been provided with the delegated authority.

Contract with a local law firm

A law firm has been used for many years in Lima, providing legal advice on a regular basis. However, a contract has not been agreed and signed with this firm.

*Note: Other issues were identified related to HR and service provider contractual matters that is reported under Human Resources and Administration (Section C – refer to observations C2.4 and C3.1).*

**Risk(s):** Legal liabilities; Asset/financial loss

**Cause(s):** Compliance; Procedures/guidelines

**Recommendation 3**

- a) Future contracts required by the Andean CCST office (with exception of personnel contracts) are processed through the e-contracts system to ensure that all required functions validate and provide technical approval. In the meantime, all current valid contracts are uploaded to the e-contracts system;
- b) Any contracts and/or purchase orders are signed by the Head of Country Cluster (Andean Countries), unless the signing authority is delegated, as per contract procedures. This should also apply to any contract to be signed in Ecuador. The contract approval procedures and the contract approval matrix (CAM) is shared among Andean cluster staff to ensure their full awareness regarding contractual matters;
- c) A contract is signed with the local law firm which documents and agrees the services to be provided and respective costs.

**Management Action Plan:**

- a) As of 31 October, all Lima contracts are already in e-contract (Administration Officer).
- b) A Lima CAM (with ARO format) will be conducted and shared with all the office staff by 31 December (HCCST and Administration Officer).
- c) The contract was signed with the ARBE law firm, approved by the ARO's legal office, uploaded in e-contract and signed on 28 September 2017.

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**Priority Rating:** High

## SECTION B – PROGRAMME AND PARTNERSHIP MANAGEMENT

B1	<b>PROGRAMMING, PLANNING, MONITORING, EVALUATION AND REPORTING</b>
<p><b>B1.1 Programming and Project management</b></p> <p><u>Venezuela DREF</u></p> <p>The Andean CCST scope includes monitoring programmes implemented in Venezuela. A project is in progress to support beneficiaries during the political crisis and this is being funded by the DREF (Disaster Response Emergency Fund).</p> <p>The impact of the Venezuela crisis has led to hyperinflation and an unstable local currency. The value of the DREF is CHF 126'148. However, the real value of this DREF in country will depend on the local currency which is only accessible in two ways: government official exchanges DIPRO or local rates DICOM. As the local currency devalues the relative purchasing power of CHF126'148 within day to day trading has fallen, and the real costs of items have increased, as much as 1000%. There is a real risk of not being able to afford the planned purchase goods and services as well as resulting in poor value for money.</p> <p>This has a significant effect on the delivery of the DREF programme and being able to implement all the activities, which could lead to a lack of service to beneficiaries. The delay in the return of information from the field will also compound this risk, so programme management need support to analyse the funding impact and react appropriately.</p> <p><u>Planning, Monitoring, Evaluation and Reporting (PMER) from the Andean CCST</u></p> <p>A Monitoring and Evaluation (M&amp;E) plan is recommended in the IFRC PMER global guidelines to be used by all Secretariat funded project/programmes at the field level. The PMER guidelines state that an M&amp;E Plan “allows programme staff at the field level to track progress towards specific targets for better transparency and accountability”. An M&amp;E plan had not been completed for the Peru Floods Emergency Operation during the project planning stage. Without a customised and documented M&amp;E plan, there is a risk that the quality of the project may be compromised and project objectives are not achieved.</p> <p>Evaluations are key to assessing the impact of projects and help provide lessons for future decision making. At the time of the audit, evaluations or similar field reviews had not yet been planned for the Peru Floods Emergency Operation.</p> <p><u>Cash programming</u></p> <p>Cash programming activities are an important part of the Peru Floods Emergency Operation and carry significant financial risks. The activities and respective monitoring plan were still in the planning phase, but greater awareness was required on the distinction between beneficiary selection and reconciliation/monitoring roles when implementing the cash programme.</p> <p><u>Project management</u></p> <p>Project management is being made more difficult due to:</p> <ul style="list-style-type: none"><li>• A considerable number of projects (8) opened for the Peru Floods Operation which creates additional tasks and extra review on each project;</li><li>• Project managers have not been debriefed or received training on certain IFRC procedures (finance, procurement, HR and PMER) and therefore struggle to find or apply the correct process or method required; and;</li><li>• Project managers do not consistently receive detailed financial information regarding the projects that they are managing (e.g. browse details of expenses per project).</li></ul> <p><b>Risk(s):</b> Ineffectiveness; Inefficiency; Fraud/Misuse</p>	

**Cause(s):** Oversight/guidance; Resources/Capacity

**Recommendation 4**

- a) The Head of Country Cluster (Andean Countries) collects information on the most recent Venezuela DREF expenditure against budget in local currency and the relevant invoices. An assessment of the increase in the cost of goods and impact on the budget should be presented to the DREF Programme Manager. Any significant cost differential should be immediately escalated to the Americas Regional Office as a warning that existing funds may not cover activities required and for options to be urgently appraised;
- b) A Monitoring and Evaluation plan is developed by the Peru Operation team with technical support from PMER experts;
- c) Roles and responsibilities to control and monitor the cash programme will be confirmed and documented, including clear segregation of duties between staff identifying and helping select beneficiaries and staff reconciling and monitoring cash disbursement;
- d) Identify knowledge gaps among the project managers regarding IFRC procedures and provide the required training as well as monthly financial detailed information regarding the projects they are managing (*refer to recommendation #14*).

**Management Action Plan:**

- a) The DREF PM / BH has carried out an analysis of the situation of devaluation of the DICOM change and of the Statutory Contributions Swap ("Swap Baremo") agreement on the budget defining the feasibility and compliance with the objectives in light of the "voluntary" contribution of the SN.
- b) The Peru Floods Operation Coordinator has created a Monitoring and Evaluation Plan, with the same structure as that used in the Ecuador Earthquake Operation. The audit's suggestions have been incorporated and it is already operative (document in Dropbox).
- c) Due to the characteristics of the contract (without costs), the RLU has informed that the selection of the bank for the CTP in Operation Peru is subject only to the financial risk analysis of Geneva, once all the banks provide the information, the documentation. In the implementation phase, the separation of roles will be as follows: selection of beneficiaries by local team with CT delegate, delivery of the benefit (cash) by the bank with list authorized by the Operation Coordinator and the conciliation delivery / beneficiaries list by the finance officer (Operation Coordinator).
- d) By 2018 all delegates in charge of activities with a P-Code will be trained in BH / PM (HCCST and Finance Manager).

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** January 2018

**Priority Rating:** Medium

Field visit to the Ecuador office

A field visit to Quito was undertaken by one of the auditors. The purpose was to meet the IFRC operations team who continue to support the implementation of the 2016 Earthquake Emergency Appeal through the Ecuadorian Red Cross and assess programme control. The following points were noted regarding the PMER processes:

- *Planning* - Activity planning has been completed by each individual programme. However, these have been completed in isolation rather than planned together. There is a risk that there is a lack of co-ordination leading to inefficiencies, extra costs and affect delivery of services and goods to beneficiaries.
- *Implementation/Monitoring* - The Operations Manager is the budget holder for all the projects and performs most of the related financial management tasks. As technical experts, the WASH and Livelihoods delegates are expected to plan, monitor and report on their specific area of activity. They also should oversee budgeting and the use of funds to undertake the activities. However, these delegates are not regularly and/or consistently involved in key financial progress reviews (e.g. analysing budget vs expenditures, reviewing NS working advance

expenditures, etc). One key reason is that the delegates do not receive internal monthly financial reports to review project expenditures (for example, browse details of expenditures). Furthermore, the delegates are not involved in the preparation of donor reports, which is essential to confirm the detail of the activities.

- *Monitoring/Evaluation* - A M&E plan has been established. However, some areas for improvement have been identified, when it comes to establishing clear monitoring time lines and means of verification.
- *Reporting* - The auditors have reviewed the Ecuador Earthquake Appeal document and the plan of action. It was noted that some established outputs and activities are difficult to measure, because some of the indicators are not "SMART" (e.g. some indicators have no baseline to be measured against). Therefore, the operations update (annual report) does not clearly indicate, for each output, the activities initially planned (targeted) vs activities implemented.

**Risk(s):** Ineffectiveness; Inefficiency; Fraud/Misuse

**Cause(s):** Oversight/guidance; Resources/Capacity

**Recommendation 5**

- Ensure that program activities are planned together among all project managers to minimise resources and maximise value added;
- Ensure that Project Delegates (WASH and Livelihoods) are actively involved in the financial management of their activities, including pledge and appeal reports, reviewing of national society working advance expenditures, plan vs implementation of expenditure analysis, etc. Furthermore, relevant project financial information, such as browse details of expenditures for their activities, should be provided to them monthly;
- The monitor and evaluation plan is improved, with clear monitoring activities, time lines and means of verification;
- Operation updates and annual reports include activities/outputs initially planned (targeted) vs actual activities implemented and outputs achieved, to better identify implementation gaps and the reasons why.

**Management Action Plan:**

Since the audit visit and until the closing of the operation (April 2018), the recommendations are being implemented: involvement of the delegates in financial management, improvement of the implementation of the Monitoring and Evaluation Plan, improvement of compliance indicators for the reports. (Operation Coordinator).

**Risk Owner:** Operations Manager (Ecuador) and Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**Priority Rating:** Medium

<b>B2</b>	<b>RESOURCE DEVELOPMENT AND PARTNERSHIP MANAGEMENT</b>
<b>B2.1 Resource development</b>	
<i>Nothing to report</i>	

<b>B3</b>	<b>LOGISTICS, PROCUREMENT AND FLEET</b>
<b>B3.1 Procurement</b>	
<u>Supplier management</u>	

The Andean Country Cluster has not been involved in major procurement activities. Procurement requirements have been mainly for administrative items/services with values under CHF 5'000. However, the recent Peru Floods Emergency Operation (DREF launched in March 2017) includes cash programming activities and other non-food items (NFIs) that will be procured through the Andean CCST office. This procurement is being overseen by a Logistics Assistant that has been temporarily employed to support the Peru operation. A supplier database has been recently created. However, supplier registration forms have yet to be issued, filled out and logged. Furthermore, a process to formally review the performance of the suppliers on a regular basis has not been established and documented.

**Risk(s):** Fraud/misuse; Inefficiency

**Cause(s):** Oversight/guidance

**Recommendation 6**

- a) Suppliers are pre-qualified through receipt and analysis of registration forms, as required under procurement procedures. Registration should be retained and secured for reference. As a result, supplier database should be updated with supplier information received;
- b) A performance evaluation of each supplier should be completed and documented after the delivery of goods/services (refer to section 2.2.2 and 2.2.3 of the procurement manual #93).

**Management Action Plan:**

To date, the registry of regular suppliers of the Cluster and of the new ones of Operation Peru has been done. The evaluation system to be carried out with the support of the logistics development delegate in Lima is pending and will be completed by 31 December.

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**Priority Rating:** High

**B3.2 Fleet Management**

*The offices in Lima and Ecuador do not hold any IFRC rented vehicles.*

**B3.3 Warehouse Management**

*IFRC does not hold any warehouses in Lima or Ecuador (warehouses are managed by the respective National Societies).*

<b>B4</b>	<b>SECURITY</b>
<b>B4.1 Security Framework</b>	
<u>Security regulations and security incident reporting</u>	
<p>The Andean CCST office has been recently visited by a consultant Security Officer for the Americas region. The office has been assessed as compliant with Minimum Security Requirements (MSR). However, the local security regulations have only been recently revised and approved, therefore not all staff had read and accepted the updated regulations at the time of audit.</p> <p>Furthermore, the need for local security incident reporting requires greater emphasis. Although minor, three security incidents were reported locally in Peru, but not documented. The nature of these incidents has not been fed back to the security unit in Panama/Geneva as required by global security regulations.</p>	
<b>Risk(s):</b> Security/Safety; Ineffectiveness	

**Cause(s):** Compliance; Oversight/guidance

**Recommendation 7**

- a) Ensure that security regulations are shared with all staff working for the Andean cluster and a follow up meeting offered. Written acknowledgment of receipt and understanding of the revised regulations should be gathered from all staff and added to personnel files;
- b) Ensure that all accidents and/or security incidents are reported by staff to line managers, assessed and documented and then a copy of the report sent on to the security unit in Geneva within 48 hours, as per the "Security Framework and Minimum-Security Requirements #89 (section 5.3)".

**Management Action Plan:**

- a) The internal security documents have been approved by the ARO security officer and the Security Unit in GVA. These are now being translated into Spanish and will be formally presented to all staff in a meeting for this purpose by 31 December. (HCCST and security focal point).
- b) Previous incidents are already registered with the ARO security officer.

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**Priority Rating:** Medium



## SECTION C – OPERATIONS SUPPORT

<b>C1</b>	<b>FINANCE</b>
<b>C1.1 Financial Management and Oversight</b>	
<p><u>Monthly checks/analysis</u></p> <p>A Finance Analyst role has been established in Lima since the last quarter of 2016. The officer who took the position was already in the Lima office as a Finance Officer. The Finance Analyst role includes providing oversight of all IFRC finances provided to Red Cross programmes and projects in South America (for both Andean and South Cone and Brazil CCST). The key objective is to ensure accurate and timely reporting and sound financial control in the respective offices accounting for IFRC funds. This role includes reviewing the month-end files; it was noted that the monthly review of documentation was delayed, with the last month reviewed being June 2017. The main reason for the delay is due to the Finance Analyst performing tasks which are not related to her function or job description, leaving limited time to perform her month end duties (<i>also refer above to observation A.2.1</i>).</p>	
<p><u>Balance sheet</u></p> <p>A review of the Andean CCST office balance sheet as at August 2017 was performed and the following was noted:</p> <ul style="list-style-type: none"> <li>• Not all accounts receivable were reconciled (e.g. prepayments and deposits);</li> <li>• Not all accounts payable were reconciled/zeroed (e.g. payroll account).</li> </ul> <p>Unreconciled balances increase the risk of mistakes which are not resolved within a timely period.</p>	
<p><u>Supplier accounts</u></p> <p>Supplier codes are being used for regular and re-current suppliers by the Andean CCST office. However, supplier accounts have not been created for other providers, for which the procurement amount could be significant.</p>	
<p><u>Timely accounting/processing</u></p> <p>Financial transactions in IFRC accounting system (CODA) are not processed on a regular and timely basis, such as daily or weekly. Consequently, account reconciliation and monthly control processes are delayed and/or poorly performed at month-end accounts' closure.</p>	
<p><u>Expenditure testing</u></p> <p>A sample of 60 expenditure transactions were reviewed to assess authorisation, completeness, accuracy and the adequacy of documentation to support entry into CODA.</p> <p>Overall, expenditures are adequately supported and approved, recorded in the appropriate accounts, input into the system at the correct amount and booked into the correct accounting period. However, some expenses have been selected for further extensive testing to analyse the suppliers used in the procurement files, for which a report will be issued separately.</p>	
<p><b>Risk(s):</b> Asset/financial loss; Fraud/misuse <b>Cause(s):</b> Compliance; Oversight/guidance</p>	
<b>Recommendation 8</b>	
<p>a) The Finance Analyst should review the monthly files from Andean CCST and South Cone and Brazil CCST offices within one month of closing the accounting period (e.g. files from June should be checked by middle of August);</p> <p>b) The Andean CCST finance unit must ensure the timely and accurate completion of the month-end accounts, including documented reconciliation of all bank, cash, receivables and payable accounts;</p>	

- c) Supplier accounts should be created for all suppliers with amounts to be procured above CHF 1'000, in addition to regular suppliers;
- d) Ensure that financial transactions are processed in CODA on a daily, or at least, weekly basis. The finance analyst should establish a monitoring mechanism to ensure this is effectively happening;
- e) Special attention is given to check (analyse, assess and verify suppliers) supporting documentation related to procurement of goods and services. The Finance Officer/Analyst should escalate any potential findings to the Americas Regional Finance Unit, when documentation is unclear.

**Management Action Plan:**

The weekly accounting closing by the 31st of the month have already been applied; account for suppliers greater than USD 1,000 dollars are created and transactions are already processed weekly in CODA.

**Risk Owner:** Head of Country Cluster (Andean Countries) and Finance Analyst

**Due Date:** December 2017

**Priority Rating:** High

**C1.2 Partner working advances and cash transfers**

Balances and reconciliations

Working advances to IFRC staff and to National Societies across South America are monitored and reconciled monthly by the Andean CCST finance unit. However, the following issues were noted:

- Working advance amounts to National Societies (WANS) are not transferred in CHF, as per IFRC procedures; and,
- A few WANS balances have been dormant for more than 6 months. Therefore, progress and financial spend on the implementation of a programme is unknown.

Provision for WANS

At month end, any outstanding balances (unreported expenditures) related to the Ecuador RC working advances need to be provisioned in IFRC accounts to ensure the commitment is recorded. However, the working advance has been recorded to project (PEC030) while provisions are split among various projects. The criteria used to split the provisioned amount is not clear, neither based on information received from Ecuador Program Manager or Finance Officer. Consequently, project balances may be incorrectly stated (i.e. including commitments over or under provisioned).

Brazil and Argentina WANS balances

IFRC funded or supported programmes in Brazil and Argentina are overseen by the South Cone and Brazil Country Cluster Support Team based in Buenos Aires (covering Argentina, Brazil, Chile, Paraguay and Uruguay). However, it was noted that DREF outstanding balances related to Brazil and Argentina have been included in the Andean CCST office balance sheet. The reason given for this inclusion is that the DREF officer covering the whole of South America is based in Lima and the DREF funding transferred to National Societies is processed in Lima, even though expenditures takes place within Brazil/Argentina. Consequently, the Head of Andean CCST office is signing and taking accountability for financial accounts related to two National Societies for which he has no direct influence, oversight or responsibility.

**Risk(s):** Asset/financial loss; Inaccurate/late reporting

**Cause(s):** Compliance; Oversight/guidance

**Recommendation 9**

- a) Ensure that any new working advance made to National Societies are issued, accounted for and reported in CHF, as per IFRC procedures;

- b) Andean CCST follow up outstanding working advance (WANS) amounts to ensure timely reporting by the respective National Societies. Establish escalation mechanisms to senior managers and/or consider stopping the transfer of any further working advances if balances remain outstanding longer than 3 months without good reason;
- c) Ensure that provisions for WANS outstanding balances is accurately accounted to the projects for which outstanding invoices/receipts are unreported. In the case of Ecuador NS outstanding balances, information should be provided by the Ecuador Operations Manager/Finance Officer based on clear and consistent criteria;
- d) Ensure that Andean CCST office balance sheet only includes amounts and account balances which are under its direct control and responsibility. Any working advances to National Societies such as Brazil or Argentina should be accounted for in the respective cluster balance sheet (i.e. South Cone and Brazil CCST – CODA company AR).

**Management Action Plan:**

- a) As of now, all WANS will be posted in CHF.
- b) The second *tranche* will only be done if 80% of the first is reported and validated and there is suspension of transfer of funds if the financial reports are dormant for more than 60 days.
- c) The income/outcome tracking for the P-Code is adjusted and corrected.
- d) The separation of the non-Andean WANS (Buenos Aires Office) from the Lima office depends on the RFU in ARO. (HCCST and Finance Manager).

**Risk Owner:** Head of Country Cluster (Andean Countries) and Operations Manager (Ecuador)

**Due Date:** December 2017

**Priority Rating:** Medium

**C1.3 Staff working advances**

A review of national staff and delegates' working advance amounts was performed during the audit review. It was noted that in a few cases the working advance amounts are not being immediately cleared by the member of staff after returning from each mission. As a result, such balances are carry forward to the next month or to the next working advance. This may lead to staff holding unnecessary amounts of cash.

**Risk(s):** Inaccurate/late reporting; Fraud/misuse

**Cause(s):** Compliance; Oversight/guidance

**Recommendation 10**

Andean CCST finance unit ensures that staff immediately report expenditure for outstanding working advances after returning from each mission/travel. All receipts and the remaining cash balance should be returned and processed before a new working advance is issued.

**Management Action Plan:**

All the WADs will be closed at the end of each mission. There was only the case of the Disaster Manager due to his constant missions. (Finance Manager)

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**Priority Rating:** Medium

**C1.4 Petty Cash Management**

Petty cash policy

A petty cash policy has not been established, neither for the Andean CCST nor Ecuador offices.

#### Petty cash processes

The following was noted when reviewing the petty cash processes:

- The treasurer does not consistently issue a serial, pre-numbered voucher to confirm reimbursement/receipt of petty cash. A voucher/receipt is only issued when cash is returned, but not when expenses are reimbursed. Also, voucher/receipt numbers are not entered into CODA for cross reference. No monthly reconciliation between the petty cash transactions and the pre-numbered voucher/receipt book has been performed;
- Cash counts are performed monthly. However, the cash count is not always performed on the last day of the month (or the first of the following month);
- Petty cash transactions are not always input on to CODA in time for the reconciliation between the physical cash and the financial system records;
- Surprise cash counts are not performed and documented.

#### Safe and security

The processes around custody of cash were observed and the following was noted:

- The Admin assistant, acting also as the treasurer, is keeping during the day a small cash box for petty cash payments in a drawer. However, the cash box is not being kept overnight in the main safe;
- A clear and robust mechanism has not been established to ensure adequate segregation of duties in relation to the safe combination and keys access. Plus, the process for the handover of keys and combination codes during leave of office is also unclear.

#### Emergency petty cash - Lima

The Andean CCST office holds two emergency petty cash amounts (one in USD and one in local currency). These emergency cash, as explained by the Head of Country Cluster (Andean countries), are held due to the need of urgently deploy the DREF officer at short notice to support emergency operations within the region as well as face urgent needs of cash during a potential earthquake in Lima.

Nevertheless, the risk of holding such amounts of cash in the office compared to the likelihood of not having sufficient cash available to travel abroad during an emergency and/or to deal with a major earthquake in Lima are not formally documented/assessed.

#### Ecuador office petty cash

The office in Ecuador requires a certain amount of cash to pay some of its operational expenses as petty cash. There is no traditional petty cash account in Quito. Funds are transferred from Andean CCST office to Ecuador and accounted as a working advance in the name of the Ecuador Finance Officer, instead of being accounted as "Ecuador Office Petty Cash". Consequently, normal petty cash practices/routines are not established in Ecuador (e.g. petty cash policy, monthly cash counts, surprise cash counts, etc).

Furthermore, the Finance Officer in Ecuador has no access to CODA and therefore reports all expenditures to Andean CCST in an excel sheet, which is then reviewed and posted by the finance unit.

**Risk(s):** Asset/financial loss; Fraud/misuse

**Cause(s):** Oversight/guidance; Procedures/guidelines

#### **Recommendation 11**

- a) Ensure that a petty cash policy is established and enforced for Andean CCST and Ecuador offices;

- b) All petty cash transactions are documented and supported by a serialised voucher/receipt, with the respective number entered into CODA for cross referencing. At month end, petty cash CODA transactions should be reconciled with the voucher/receipt book to ensure the completeness and the accuracy of amounts and postings;
- c) Ensure monthly cash counts are timely performed after all petty cash transactions are input into CODA;
- d) Surprise cash counts are randomly performed and documented;
- e) A clear and robust mechanism is established to ensure adequate segregation of duties in relation to the safe combination and keys access, as well as the handover process of the cash/key/combination holders during absence or leave,
- f) The need of holding an emergency petty cash amount in USD and local currency is assessed in consultation with the Americas Regional Office and possible alternatives are considered. We suggest discontinuing the use of emergency cash and slightly increase the regular petty cash amounts;
- g) A petty cash account for Ecuador office is opened in CODA and all funds advanced to the Finance Officer in Ecuador are accounted and reported through this petty cash account. Furthermore, cash management proceedings are established (e.g. monthly and surprise cash counts);
- h) Consider training the Ecuador Finance Officer to post directly all petty cash transactions into CODA-Intray (and eventually other transactions such as WAD and/or WANS). The respective transactions could then be reviewed and posted to books by the Andean CCST finance unit.

**Management Action Plan:**

- There is a draft petty cash policy that will be presented to RFU in ARO on 30 November. The recommendations of the audit are currently being applied. (Finance Manager)
- Based on experience, the two emergency petty cash funds have been maintained. The reduction to one in dollars-USD will be evaluated with the RFU and PADRU in ARO. (HCCST and Finance Manager).
- The opening of a petty cash (in CODA) for the office in Ecuador and the training of the finance officer are subject to coordination with RFU in ARO. (Finance Manager).

**Risk Owner:** Head of Country Cluster (Andean Countries) and Operations Manager (Ecuador)

**Due Date:** December 2017

**Priority Rating:** Medium

**C1.5 Bank Management**

Opening and closing bank accounts

The Andean CCST office holds two bank accounts in BBVA bank, one in USD and one PEN (local currency).

Other bank accounts have been opened on behalf of the Peruvian RC in exceptional circumstances, of which some were in the process of being closed and another one aimed to be closed before year end (note: the issues identified with the opening and closing of these accounts are being addressed separately from this report).

Due to several issues related to the opening of the above bank accounts, the office has been requested to close all bank accounts in BBVA and open new accounts in Citibank.

American (bilateral) RC bank account

The American RC was working bilaterally in Peru and requested the IFRC, based on a signed Integration Agreement, to open a bank account in Lima on their behalf. In the meantime, the American RC closed their office in Lima during the first half of 2017. Nevertheless, the bank account remains opened with a balance. Correspondence between the Andean CCST office, the Regional Finance Unit in Panama and American RC representatives (which are now based in Panama) has been going on since July 2017, without being able to close the account, yet.

Cashing cheques

<p>To replenish the petty cash, cheques are issued and cashed from the bank, as needed. The auditors were informed that only one person goes to the bank to cash the cheques, increasing the security risk for the person and increasing the risk of cash loss.</p> <p><u>Cancelled cheques</u></p> <p>Cancelled cheques (for e.g. due to mistakes) are void but kept attached to the monthly financial books, increasing the risk of cheques being misplaced and/or re-used.</p> <p><b>Risk(s):</b> Asset/financial loss; Fraud/misuse; Inefficiency</p> <p><b>Cause(s):</b> Oversight guidance; Procedures/guidelines</p>
<p><b>Recommendation 12</b></p> <ul style="list-style-type: none"> <li>a) Finalise the process of opening IFRC bank accounts in Citibank and closing the accounts in BBVA as instructed by Geneva finance department. All bank accounts opened in the name of Peruvian RC are closed before yearend, as agreed with the National Society;</li> <li>b) Finalise the process, in coordination with Geneva and Panama finance units, to immediately close the American RC bank account that remains opened;</li> <li>c) Ensure that always two staff are sent to the bank when cashing IFRC cheques;</li> <li>d) Cancelled cheques are void and kept in the Safe. A copy of the cheques can be attached to the financial books, to facilitate bank and cheque reconciliation at month-end.</li> </ul> <p><b>Management Action Plan:</b></p> <ul style="list-style-type: none"> <li>a) The c/c in BBVA of the Peruvian RC have been closed; the opening of the Citibank c/c are in process (awaiting GVA documentation on Citibank's extra requirements). (HCCST and Finance Manager)</li> <li>b) The closing of the AmCross c/c in BBVA depends on documentation from the AmCross and ARO. (HCCST and Finance Manager).</li> <li>c) As much as possible, two (2) people operate cash with the bank.</li> <li>d) As of November 2017, canceled checks are stored in the safe.</li> </ul> <p><b>Risk Owner:</b> Head of Country Cluster (Andean Countries)</p> <p><b>Due Date:</b> December 2017 <span style="float: right;"><b>Priority Rating:</b> Medium</span></p>

<b>C2</b>	<b>HUMAN RESOURCES</b>
<b>C2.1 Recruitment, job specification and classification</b>	
<p><u>Salary scale</u></p> <p>Salaries of National Staff in Andean CCST office have been benchmarked against ICRC and one other organisation. Based on that, national staff salaries were adjusted accordingly. However, a salary scale by function, with steps and grades, have not been established, increasing the risk of perceived inequalities and/or favouritism.</p> <p><u>Salary adjustments</u></p> <p>Some staff throughout the years have changed functions and the respective salary amounts have been adjusted from time to time. However, such changes have occurred without an addendum to their respective contracts.</p>	

<p><b>Risk(s):</b> Asset/financial loss; inefficiency, reputation <b>Cause(s) :</b> Organisational culture ; Oversight/guidance; Compliance</p>
<p><b>Recommendation 13</b></p> <p>a) A salary scale for national staff is established, by function, with grades, steps and salary range that allow calculation of remuneration based on pre-defined criteria;</p> <p>b) Salary adjustments are subject to pre-established criteria (e.g. performance, inflation, etc). Furthermore, any changes in job function and/or remuneration should be documented through a new contract and/or an addendum to the existing contract.</p> <p><b>Management Action Plan:</b></p> <p>Draft narrative document that explains the salary table applied (calculation and increases) is being developed including the functions of each - to be applied to any contractual adjustments by 31 January 2018. (HCCST and HHRR Officer).</p> <p><b>Risk Owner:</b> Head of Country Cluster (Andean Countries) <b>Due Date:</b> February 2018 <span style="float: right;"><b>Priority Rating:</b> High</span></p>
<p><b>C2.2 Starters, leavers and performance management</b></p> <p><u>Induction</u></p> <p>An induction process should be followed every time a new member of staff is hired. This provides consistency for each new starter and a reminder of the key tasks to be completed by HR or line managers. However, this has not been consistently documented in the past. A starters/induction checklist has not been established for the Andean CCST office.</p> <p>As per interviews with staff, it was noted that some staff have not been properly inducted and/or trained, as they were not aware about some relevant procedures (e.g. financial, procurement or HR procedures). Furthermore, some program and support services staff have not concluded the Fraud and Corruption Prevention e-learning courses.</p> <p>One case was noted where a Delegate was not provided with computer equipment, having to use her personal laptop for over a month.</p> <p>One national staff does not have an attributed IFRC email address and has been using her personal email to contact service providers on behalf of the Delegation – the staff was contracted by IFRC on behalf of the Peruvian RC although she is seating in IFRC office and providing support to the IFRC Peru Emergency Operation program staff (also <i>refer to observation C 2.4 on contractual matters</i>).</p> <p><b>Risk(s):</b> Inefficiency; Ineffectiveness <b>Cause(s):</b> Compliance; Oversight/guidance</p>
<p><b>Recommendation 14</b></p> <p>a) Establish an induction checklist to ensure that a proper boarding process is conducted, including a list of briefings, administrative arrangements and a list of received assets which could be reconciled/combined later with the asset clearance form upon staff departure. This should be documented and signed off by the staff as evidence that the induction process occurred and be kept in the HR files;</p> <p>b) Map training gaps and needs among staff and establish a development plan to ensure relevant (and required) training is provided to, and completed by, staff;</p> <p>c) Ensure any newly IFRC contracted international and national staff are timely (immediately) provided with required</p>

telecom equipment and email address.

**Management Action Plan:**

- There is a pre-established induction agenda for its implementation with the new employees, the personnel files and their signatures will be implemented in December. (HCCST and HHR Officer).
- The capacity development plan according to basic requirements and functions will be implemented as of January 2018. (Each line manager).

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** January 2018

**Priority Rating:** Medium

**C2.3 Leave management**

Leave request forms are adequately filled in and signed off. A national staff leave monitoring table is maintained by the Administration/HR Officer. However, the leave monitoring table was not up to date when checked. In addition, there is no process to report leave balances to line managers to help planning and on-going monitoring.

**Risk(s):** Inefficiency; Ineffectiveness

**Cause(s):** Compliance; Oversight/Guidance

**Recommendation 15**

Ensure the leave monitoring table is kept up to date and the data input is compared with the approved leave forms at the end of each month. The leave monitoring table should be shared at least on a quarterly basis with line managers.

**Management Action Plan**

A table has been prepared and starting from November the leave balances will be shared with employees and respective line managers. (HR Officer).

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** January 2018

**Priority Rating:** Low

**C2.4 Labour law, staff regulations and contracting**

Contracting of staff

The Andean CCST office uses different methods to contract the services of staff, both in the Lima and Ecuador. The various contractual modalities could lead to several risks, even though there has been consultation with the local legal firm. It is important to note that IFRC has no current legal status in Ecuador and therefore all contracts for Ecuador are issued and controlled by Andean CCST office under Peruvian Law. The following was noted:

- National staff based in Lima are initially provided with a fixed term contract, which automatically becomes open-ended after three years of consecutive employment, as per Peruvian Labour Law. When reviewing personnel files, the auditors found that 2 national staff did not have a contract which reflected their actual role or function and one staff had no employment contract, despite working with the delegation for 10 years;
- During the Peru Floods Emergency Operation, three national staff in Lima were contracted by IFRC on behalf of the Peruvian RC. According to the Head of Country Cluster (Andean Countries), this arrangement was requested by the National Society, justified by the fact that Peruvian RC was going through an internal change process with several 'legal/HR challenges' and did not want to increase their payroll list. An official agreement was never signed between the IFRC and Peruvian RC to clarify the roles, responsibilities and reporting lines. Two out of the



three staff ended their contract, but one is still employed on an IFRC contract and providing direct logistics support to the IFRC Peru Emergency Operation. It is not clear to whom the staff is reporting (to national society or IFRC delegation);

- One staff, originally from Colombia, has been contracted by the Andean CCST office to work for the IFRC Ecuador office. The modality of contract being used is a “service agreement”. This different approach presents serious reputational and legal risks, as it can be considered discriminatory when compared to standard international staff contracts and access to benefits.

#### Staff regulations

There are two Ecuadorian nationals and one Colombian national working at IFRC Ecuador office, contracted by Andean CCST office. However, it is not indicated in their contract which staff regulations should be followed. There is a similar situation for staff based in Colombia.

**Risk(s):** Legal Liabilities; reputation, financial/asset loss

**Cause(s):** Compliance; Oversight/Guidance.

#### **Recommendation 16**

The contractual situation of all staff (in Lima, Ecuador and Colombia) is reviewed, in consultation with the HR and Legal units in the Americas Regional Office alongside local legal advisors in Lima. In particular:

- a) Ensure every staff has a valid/signed contract indicating their role and function, their remuneration, the staff regulations they should refer to, and a job description with clear managerial and technical reporting lines;
- b) Ensure the modalities (type) of contracts are in accordance with IFRC standards and in accordance with the duties being performed.

#### **Management Action Plan:**

- The 3 outstanding Lima HR contracts have been regularized (with the legal approval) on 28 September 2017.
- The staff on loan contract for the Peruvian RC has been closed.
- The regional contract in Ecuador does not merit being changed to a delegate due to the short remaining period of this contract.
- The draft HR regulation in Lima office that applies to expatriate staff in other countries (non-delegates, not RITs) will be sent to HR in ARO by the end of 2017.

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**Priority Rating:** High

#### **C2.5 Personnel Files**

##### Standard filing system

Seven (out of 14) national staff files were reviewed. The following documentation was missing:

- Two contracts (*refer to previous observation C2.4*),
- Two job descriptions;
- Two signed IT acceptable user policy;
- One application/curriculum vitae and employment reference checking for a recently hired employee.

<p>A file content cover sheet may have highlighted these gaps earlier. Also, personnel files are not indexed and organised according to the IFRC standard filing system.</p> <p><b>Risk(s):</b> Inefficiency; Legal Liabilities.</p> <p><b>Cause(s):</b> Compliance; Oversight/Guidance.</p>
<p><b>Recommendation 17</b></p> <p>A checklist is developed on the minimum documents required for each personnel file (international and national staff) and files are indexed accordingly. All personnel files are routinely reviewed by the Administration/HR officer to ensure that they contain all required documents and information.</p> <p><b>Management Action Plan:</b></p> <p>The cover sheet will be implemented by 31 December for all the HR contracts that are already regularized. We plan to review contracts and documents on quarterly basis. (HCCST and HHRR Officer).</p> <p><b>Risk Owner:</b> Head of Country Cluster (Andean Countries)</p> <p><b>Due Date:</b> January 2018 <span style="float: right;"><b>Priority Rating:</b> Medium</span></p>

<b>C3</b>	<b>ADMINISTRATION</b>
<b>C3.1</b>	<p><b>Administrative policies and procedures</b></p> <p><u>Housing guidelines</u></p> <p>Housing guidelines should be prepared for all locations under the scope of the cluster office, where accommodation is provided by the IFRC to staff. It was noted there were no housing guidelines established, neither in Andean CCST nor Ecuador Office.</p> <p><u>Housing maintenance</u></p> <p>Delegates are provided access to housing accommodation for the term of their contract whilst working for IFRC. This includes payment of deposits to accommodation landlords. There are historic cases in Lima, where the landlord did not return the house rental deposit to the IFRC. It was alleged that delegates handed back rented house/apartments in poor condition. These disputes are still being resolved, impacting on time and local reputations. Despite these historic disagreements, there is still no current process to regularly monitor the condition of the IFRC rented apartments and to call delegates to account.</p> <p><u>Service provider contracts</u></p> <p>Specific companies are being regularly used to provide basic administrative and support services for the cluster (e.g. hotels, travel agencies, etc). However, service contracts have not been established with such providers. In some cases, the only existing documentation is e-mail correspondence agreeing the fees to be paid. Absence of contracts increases the risk of disputes, financial liabilities and services not being provided to the expected level.</p> <p><b>Risk(s):</b> Asset/financial loss; legal liabilities</p> <p><b>Cause(s):</b> Oversight/guidelines</p>
	<p><b>Recommendation 18</b></p> <p>a) Housing guidelines are prepared and established for the Andean CCST and Ecuador offices upon submission and approval by the Americas Regional Office in Panama;</p>

- b) A mechanism is established to ensure that IFRC rented house/apartments are checked by the HR/administrative officer on a quarterly basis and before a delegate leaves the premises. Any identified repairs or maintenance costs due to misuse and/or negligence (by the delegate, associate or family member) should be paid/reimbursed to the IFRC by the delegate;
- c) Service contracts are established and confirmed in writing with all regular suppliers.

**Management Action Plan:**

- By 31 December, a Housing Policy (like the one used in ARO) and in / out check-list for delegates with quarterly housing controls will be implemented. (Administration and HHRR Officer).
- The three (3) contracts of travel agencies were regularized by 29 September while out of the three (3) contracts with hotels, one (1) has been regularized (the remaining two (2) will be done by 31 December. (Administration Officer).

**Risk Owner:** Head of Country Cluster (Andean Countries) and Operations Manager (Ecuador)

**Due Date:** December 2017

**Priority Rating:** Medium

<b>C4</b>	<b>ASSET AND INVENTORY</b>
<b>C4.1</b>	<b>Inventory management and safeguarding</b>
	<p><u>Inventory management</u></p> <p>An inventory register has been established for the office equipment and furniture, but not all inventory items are labelled/tagged. Furthermore, an inventory count has not been performed/documentated by someone independent from the holder of the register. It is therefore not possible to verify whether the full register is accurate or complete.</p> <p><b>Risk(s):</b> Asset/financial loss <b>Cause(s):</b> Oversight/guidelines</p>
	<p><b>Recommendation 19</b></p> <p>Implement the "Equipment tracking policy - ref 227" issued in September 2017. In particular:</p> <p>a) Tag all inventory items with an inventory identification number and update the registers with the number. Review the inventory register to ensure it is accurate, complete and consistent in the information it contains; and,</p> <p>b) Perform and document (independently from the register holder) a physical verification of the inventory items at least once year.</p> <p><b>Management Action Plan:</b></p> <p>Starting from January 2018, the control of the inventory register will be the responsibility of the maintenance manager while the updating and periodic control will be the responsibility of the administrative assistant.</p> <p><b>Risk Owner:</b> Head of Country Cluster (Andean Countries) <b>Due Date:</b> January 2018</p> <p style="text-align: right;"><b>Priority Rating:</b> Low</p>

<b>C5</b>	<b>INFORMATION SYSTEMS</b>
<b>C5.1</b>	<b>IT management</b>

The Maintenance Officer in the Andean CCST has developed the role by becoming a local 'IT focal point' providing assistance and resolving basic computer problems. This now includes more technical areas, such as setting up and monitoring shared drives (NAS 1, 2 and 3) and undertaking daily/weekly backups.

However, the Maintenance Officer is still not officially trained in IT, and relies on developed knowledge over time. His skills and/or abilities have yet to be assessed by the Americas' Regional IT Unit. This is required to ensure IT office infrastructure and IT training support needs are being addressed, as per the minimum IFRC standards.

**Risk(s):** Asset/financial loss; Ineffectiveness

**Cause(s):** Oversight/guidelines; Organisational culture

**Recommendation 20**

The Head of Country Cluster (Andean Countries) formally requests the Director of Region to urgently send an expert from Americas Regional IT Unit, to assess and advise on the current cluster office IT framework and provide required training and guidance to the IT focal person in the Andean CCST.

**Management Action Plan:**

ITT installation, update and training mission will be carried out by the ARO in Lima from 29 October to 4 November. As of December, IT maintenance and the help desk support will be the responsibility of the maintenance assistant. (Administration Officer).

**Risk Owner:** Head of Country Cluster (Andean Countries)

**Due Date:** December 2017

**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</i> if 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:

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

#### ANNEX 5 - ABBREVIATIONS

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