5 Organisation

5.1 SUMMARY PROFILE OF THE FIELD OPERATIONS OF THE NGO UNDER AUDIT

5.1.1 Legal basis and field of activity

[Redacted text] has worked for displaced persons since 1946. It is a private foundation and one of the largest humanitarian organisations in [Redacted text]. It has specialised in international activities for refugees and displaced persons and provides assistance, contributes towards the protection of displaced people and executes projects in over 20 countries in Asia, Latin America, Africa and Europe.

Core activities are:

- Humanitarian Aid: education, distribution, shelter, camp management and legal aid;
- Advocacy work: providing a voice to the otherwise unheard;
- Emergency preparedness force: supporting the UN in emergency situations with people and knowledge;
- Information and legal counsel, particularly in connection with repatriation.

[Redacted text] has re-established its presence in oPt after closing its operations in 2008 due to funding constraints. [Redacted text] has a Country Office in Jerusalem and one field office in Gaza. oPt activities in oPt are overseen by the regional office in Lebanon and HQ [Redacted text]. The relationship between the Country Office and HQ is formalised through the procedures manuals provided by HQ. There are no country specific procedure manuals.

At the time of the audit [Redacted text] had submitted a request to DG ECHO for an additional €100,000 of funding for the project under audit.

5.1.2 Overview of Partner’s project activities in the country or region

<table>
<thead>
<tr>
<th>Projects</th>
<th>Donor</th>
<th>Value, €</th>
<th>DG ECHO share of project</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Redacted text]</td>
<td>ECHO</td>
<td>500,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

Total

5.1.3 Organisational Chart

A copy of the latest organisation chart is attached in Annex 4. Whilst the office is being established, the organisation chart is being updated on a very frequent basis. [Redacted text] has also prepared a projected organisation chart as part of the strategic planning for its operations in OPt.

All staff are allocated to projects. There is no indication of any lack of segregation of duties.

At present there is no Security Officer. Responsibility for Security is managed by the Country Director.
5.1.4 Internal control bodies

[Blank space] does not have an internal audit function. However, periodic visits are made by staff from HQ.

5.1.5 External control bodies

There have been no audits of field operations by other external bodies or government regulators.

5.1.6 Local Partner organisations

[Blank space] is working with two local NGOs to implement this project; [Blank space]. See section 6.1.6 for further details.

5.1.7 Co-ordination

[Blank space] is a member of the Displacement Working Group, which is part of the Protection Cluster of the Office of the UN High Commissioner for Human Rights (OHCHR) in oPt.

In cooperation with [Blank space], is planning to establish a Legal Taskforce which will provide further coordination of legal assistance, legal strategy, legal research and public interest and advocacy. It is intended that this will be done with the additional funding expected to be received from DG ECHO.

5.1.8 Relationship with institutional donors

In addition to DG ECHO, [Blank space] is receiving funding from [Blank space]. Activities under both of these projects have started in 2009 and to date there has been no audit performed by either donor at [Blank space] in oPt.

[Blank space] has imposed limited reporting requirements on [Blank space] provides a monthly progress report (narrative) and has recently submitted a financial update (these reports are outside the requirements of the agreement with the charity). [Blank space] is required to submit a report at the end of the project, in 2010.

5.2 Auditor's assessment of organisational structure

[Blank space] policies and procedures regarding organisational structure are satisfactory, but could be improved by implementing the recommendations listed in section 1.3 and Annex 1.
6 Accounting System and IT

6.1.1 Accounting & financial control and recording of field transactions

Applying the formal financial procedures at the Country Office is the responsibility of the Finance and Administration Coordinator ("FAC"). The FAC is assisted by an Administration and Logistic Assistant. The responsibility for finance in the Gaza office is with the local Finance and Administration Officer ("FAO").

The FAO maintains the field office accounting records on an Excel spreadsheet and records individual transactions which are sent to the FAC on a monthly basis. The Country Office transactions are initially recorded individually on Excel, then uploaded on a monthly basis, along with the field office costs. [Redacted] uses the Agresso accounting software across all organisations. Agresso is a double entry based accounting software package. At the Country Office, and in the field, accounting transactions are recorded on a cash basis. Agresso is only available at the Country Office and is uploaded to HQ on a monthly basis, by the 10th of the month.

All offices must follow the procedures set out in the [Redacted] Financial Handbook. This document has not been tailored to the local language or customs. Due to the Country Office not having been in operation for a particularly long period of time there has been significant input by the Controller at HQ regarding implementing sound financial systems and procedures, compliant with the Financial Handbook.

The chart of accounts is standard across the [Redacted] organisation. In generating the coding for transactions the numbering identifies if the cost derives from a transaction in the field. When transactions are uploaded from the Country Office to HQ it is possible to directly post HQ specific transactions that relate to the project, for example expatriate staff salaries. The FAC is able to access Agresso and review the overall costs of the project, including those charged from HQ.

On a regular basis the FAC informally meets with the Project Manager for the project subject to audit [Redacted] to discuss transactions and obtain authorisation for payment of project costs. More formally, on a monthly basis, the project accounts are produced and reviewed by the [Redacted] Project Manager and the Country Director. At this point there is a review of the costs against budget and also in relation to compliance with the FPA. Project management accounts are produced on a more detailed basis than the budget submitted to DG ECHO.

A voucher slip is used to control each transaction. This must be completed and authorised for payment of the invoice. The voucher slip is standard across [Redacted] and contains:

- voucher number;
- transaction date;
- procurement request number (order reference);
- description;
- account and project number;
- amount and currency (could be NIS or US$); and
- details of who has checked the invoice and goods plus details of the individual authorising the payment.

Invoices are stamped and signed as paid. Each transaction in Agresso is supported by a voucher slip which has all the backing documentation attached.
At the time of the audit there were only two projects being undertaken in oPt. A project in Gaza, funded by the donor and the DG ECHO funded project which is managed by the Country Office in Jerusalem. All costs relating to the project in Gaza, other than central administrative costs, are incurred, recorded and paid locally. For the allocation of central administrative costs see section 6.1.7.

Exchange rate differences are dealt with through Agresso. An exchange rate, usually that offered by the bank, is set in the system and this translates transactions into dollars. All non-cash transactions up to the end of July were entered in dollars so no exchange rate differences arose. Where a cash transaction was entered into in NIS this is translated at the rate at which the cash was exchanged.

Given the small number of transactions which are incurred at the country and field office, the level of finance staff is deemed by management to be adequate.

6.1.2 HQ monitoring and supervision

As the Country Office has not been operating for long there has been a significant amount of monitoring and supervision by HQ. There have been a number of visits by the Controller responsible for the region and regular communication via email and Skype.

Management of field operations is decentralised from HQ to the Country Office, although there is regular reporting and review. As funding is requested on a monthly basis from HQ there is not only a review of historical costs (through the management accounts review process) but also of committed and anticipated costs.

As noted in section 6.1.1, HQ expenditure is posted directly into Agresso. The FAC is able to extract this information from Agresso when required.

As yet there has been no need to override HQ procedures or directives.

Field transactions are collated at the Country Office then posted onto Agresso and sent to HQ by the 10th of the following month. In addition to the Agresso file the Country Office sends a reconciliation sheet of bank and cash balances and includes any request for additional funding. There are no formal checks performed at HQ other than requiring explanations for variances, and additional funding requested, and general discussions over the progress made in developing the Country Office (for example, the purchase of assets, and recruitment).

The Gaza office is visited regularly, predominantly by the Country Director; access is difficult at present with unpredicted road and entry point closures. When staff visit from HQ they also try to visit the field office.

There is no formal plan regarding what documentation will be repatriated to HQ, and when this should take place.

Supporting documentation pertaining to accounting transactions is retained at the Country Office and filed manually on lever arch files after being input into Agresso.

More sensitive information, for example payroll data and personnel documents, is held securely.
6.1.3 Use of budgets in field operations

As the Country Office is relatively new the initial budgets were set on a short term basis to get the DG ECHO project up and running. The budget for the two projects managed out of the Country Office (ie DG ECHO project and Gaza project) effectively formed the basis of the initial budget.

Budgets are now prepared on a quarterly basis going forward and continually monitored. The budgets form the basis of the cashflow request to HQ and are reviewed by the [Redacted] Project Manager and Country Director prior to submission to the Controller at HQ.

The key budget holders in the field are the respective Project Managers, with overall responsibility lying with the Country Director. Given the small size of the organisation this is appropriate.

All projects are reviewed against budget on a monthly basis and we understand there will be a full review on completion of the project.

6.1.4 Frequency and nature of internal reporting of field income and expenditure

Management accounts are prepared on a monthly basis by the FAC, and reviewed by the [Redacted] Project Manager and Country Director prior to submission to the Controller at HQ.

As the operations in oPt are at an early stage the management accounts only compare actual to budget figures. There is no formal narrative submitted with the accounts as variances are discussed with the Project Managers and then the Controller at HQ. The management accounts and requested budget for forthcoming months form the basis of the monthly cash request to HQ. The accounts separate out the activities of the Country Office and the Gaza office to enable funding to be paid directly to the respective office.

The variances to budget to date have been quite large but this is explained by the relative infancy of the project. The Controller at HQ, responsible for ensuring adequate financial procedures are followed, pays particular attention to variances.

6.1.5 Local VAT

The NGO has registered with Palestinian Authorities and obtained full exemption from VAT with effect from 8 July 2009.

No registration has been sought, as yet, from the Israeli authorities. Consideration is being given as to how this will be completed and a decision is expected in the next few months.

6.1.6 Financial management of local Partner organisations

The relationship with each implementing Partner is codified in a signed Memorandum of Understanding (MoU). However, this MoU was not dated and the period of the agreement not clearly disclosed.
The MoU requires that financial reports on project expenditure are sent to the NGO every other month. The financial reports should be accompanied by copies of supporting documentation for each transaction claimed, for example invoices, payroll records, procurement documentation. At the time of the audit the first period for which reporting was due to be submitted had ended but the supporting documentation had not yet been received. The FAC does not currently have a proforma checklist to ensure that all necessary documentation has been provided by the partner to demonstrate compliance with DG ECHO rules on eligible expenditure.

The FAC visited the implementing partners prior to the MoU being signed in each case to review the financial systems and discuss the requirements of the implementing partners.

The implementing Partners are audited in their own right by a local, external, independent auditor. The latest audit reports from the Partners had been requested but not received as at the time of our audit visit.

6.1.7 Allocation systems

There is no formal allocation system to allocate shared costs between projects. At present an estimate is made as to what element of costs should be allocated to the DG ECHO project and which should be allocated to the Gaza project. The basis for the allocation is informal and not easily justified; these arrangements risk allocated costs failing to comply with Article 18.5 of the General Conditions of the FPA.

No timesheets are used by staff. All staff have a job description setting out roles and responsibilities.

A logbook is maintained by the drivers and this could be used to allocate vehicle costs, although at present there is no formal system – vehicle costs are allocated arbitrarily.

6.1.8 IT management

The FAC is delegated responsibility for maintaining and managing the IT systems in place at the Country Office. The IT is rather basic in line with the requirements of the Country Office. There is no server hosting a network, all central documents are stored on one computer, acting as a host, which is then accessed by the other computers through a password protected system. Backups of the central computer are taken daily and stored in the fireproof safe. On a weekly basis the backup is taken off-site.

As the office is relatively new all IT equipment is still covered by a warranty period. Assistance was received from the IT department at HQ in ensuring that the necessary software was correctly installed from the outset, including virus guards and firewalls.

6.2 AUDITOR’S ASSESSMENT OF THE ACCOUNTING AND IT SYSTEMS

The policies and procedures regarding accounting and IT are satisfactory, but could be improved by implementing the recommendations listed in section 1.3 and Annex 1.
7 Cash and Bank

7.1.1 Cash transfer procedures

Formal procedures exist which set out the process by which cash can be transferred from HQ to the Country Office and field office. On a monthly basis a request must be made to the Controller at HQ who is then responsible for authorising the transfer. There is no formal cashflow forecast required but there is informal discussions between the FAC and Controller to justify the cash demand.

7.1.2 Cash handling procedures

At the Country Office the FAC is responsible for cash handling. Initially cash transactions were the prominent method of payment as suppliers were reluctant to provide credit to a new organisation and some suppliers would only accept payment in certain currencies. At the Gaza office the FAO is responsible for the petty cash. Reconciliations are sent monthly to the Country Office as part of the overall monthly reconciliation process. An informal petty cash count is conducted by the FAC at the Country Office on a weekly basis.

Separate cashbooks are maintained for cash held in each currency (US dollars and NIS). The cashbooks are formally reconciled to the petty cash count on a monthly basis and signed off by the Country Director. Custody arrangements for cash are satisfactory.

The cash count conducted at the Country Office on the US dollar and NIS floats found no significant errors, only a very small difference of NIS 0.71.

Cash floats form part of the monthly reporting back to HQ. The balance is kept to a minimum unless the FAC knows that a cash payment to a supplier is due.

7.1.3 Bank accounts

The Country Office holds two bank accounts, one in US dollars and one in NIS. The NIS account was opened in August 2009. As a result of this, prior to the account opening, payments to suppliers in NIS were made in cash. Since the new account was opened the number of cash payments has reduced as the use of cheques has increased.

The Gaza office has a US dollar account only. All accounts require cheques to be signed by two signatories, a list of signatories and authorisation levels is maintained.

The Controller at HQ authorises bank transfers on the basis of requests from the FAC incorporated into the monthly reconciliation reporting procedures. Justification for the requested transfer is informally discussed by email and telephone prior to approval. Transfers are made directly to the Country Office and Gaza office by HQ, there is no transferring of funds between the Country Office and the Gaza office.

All bank accounts are reconciled monthly. A review of the reconciliations for July 2009 found that they were accurately prepared and the front sheet summary was signed, but not dated, by the preparer and reviewer.
7.2 AUDITOR'S ASSESSMENT OF CASH AND BANK

[Redacted] policies and procedures regarding cash are satisfactory, but could be improved by implementing the recommendation in Annex 1.
8 Personnel

8.1 Recruitment and Administration of Staff

8.1.1 Summary personnel figures

<table>
<thead>
<tr>
<th></th>
<th>Part time</th>
<th>Full-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 August 2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expat Field Staff</td>
<td>-</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Local Field Staff</td>
<td>-</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>1</td>
</tr>
<tr>
<td>Administrative</td>
<td>2</td>
</tr>
<tr>
<td>Operational/Other</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
</tr>
</tbody>
</table>

The office has only been in operation since February 2009, staff turnover in this period has been 25% which includes both local and expatriate staff.

8.1.2 Procedures for recruiting expatriate field staff

Expatriate staff are recruited at HQ.

8.1.3 Procedures for recruiting local field staff

The recruitment procedures are the same as those in the organisation-wide procedures.

The [Name] Project Manager and Country Director decide on what local staff are required. This is driven by recruitment needs and budget available for staff. Job descriptions are drawn up with assistance from HQ. All additional staff recruitment must be authorised by the Controller at HQ. Adverts for the position are placed in local newspapers and electronic media, wherever the NGO can obtain free advertising space.

All applicants must submit a CV which is reviewed by the FAC who selects a number of applicants for interview. The successful applicants then attend an interview with the FAC and one other member of staff, whichever is most appropriate to make a decision on the respective position. The decision as to who will be selected is made jointly between the two interviewers.

All staff are given a job description, written contract (in English only) and a copy of the code of conduct.

The local staff salary scale was developed when the office was set up and there have been no changes to the scale. The point on the scale at which a job is to be advertised is identified at the initial point in the process by the [Name] Project Manager and Country Director.

There have not been significant problems recruiting good quality local staff. There has not been a problem in retaining staff as salary levels are similar to other NGOs which means that they are lower than for the UN but higher than the majority of private employers. All local staff have a contract which ends when the current DG ECHO project ends. It is hoped that continued funding will be obtained and staff can be retained onto new projects.
8.2 ASSESSMENT AND TRAINING OF STAFF

8.2.1 Formal assessment procedures for personnel

As yet there have not been any formal assessments of staff. It is intended that all staff will be appraised prior to the end of their contracts and this will form the basis of identifying who should have their contracts extended, should longer term funding be secured.

The assessment procedures that will be followed will be those that are set out in the [redacted] guidelines.

8.2.2 Training and personnel development

All staff have recently been provided with training as they have all been recruited since February 2009. Depending on the position, training has either been provided at HQ or at the Country Office, for example the FAC went to HQ for a week of training whereas administrative staff are trained locally.

The annual appraisal process (yet to take place) will identify staff training needs.

When there are representatives visiting from HQ there is usually some form of training update provided. In addition there is information on the intranet as to what training courses are available.

The intranet is used as a medium to provide staff with information on new projects, opportunities, reviews of current projects and general updates.

8.2.3 Procedures in case of conflict or dispute between management and staff

The Personnel Handbook sets out the procedures that should be followed if there is a case of conflict or dispute. In addition the employee contract sets out how grievances should be addressed.

There have been no formal disciplinary actions since the office was founded.

8.2.4 Security issues related to personnel

There is statutory health insurance for all staff. In addition there is insurance for staff working in the field and at the Country Office.

There are currently no evacuation procedures in place at either the Country Office or the Gaza office.

There are no particular security arrangements in place for staff. Given the restrictions on travel imposed by the Israeli authorities, there are problems for local staff moving between the Country Office and field sites. No additional actions can be taken at the present time to resolve these.

8.3 AUDITOR’S ASSESSMENT OF PERSONNEL PROCEDURES AND POLICIES

Policies and procedures regarding personnel are satisfactory, but could be improved by implementing the recommendations in Section 1.3 and Annex 1.
9 Fixed Assets

9.1.1 Registration of fixed assets

All fixed assets are recorded in a fixed asset register which includes a description of the asset, inventory number, manufacturer, model, cost, location, donor and project reference. All assets are tagged with an inventory number.

There is no depreciation of fixed assets, all assets are fully written off at the time of purchase. This policy is consistently adopted across all Field and Country Offices.

Fixed asset testing identified that there was a camera on the fixed asset register which had been stolen, and should therefore be removed from the register. It was also noted that some assets had two inventory numbers. No instances of double counting of assets were identified. It is understood that this situation arose because two people have been working on the fixed asset register and duplicated some of the work. should conduct a full review of the fixed asset register and asset tags.

9.1.2 Equipment control

There is currently no system for managing equipment that is intended to be carried over to another project as operations have only recently commenced. would usually carry over assets with a value above €500 to the next project. is intending to carry over the assets acquired as part of this project to future projects and advised the auditors that it will agree this with DG ECHO before the end of the project period. A full list of fixed assets charged to the project (including those falling within the low value rules) is provided in Annex 6.

9.1.3 Vehicles

uses rented vehicles on the DG ECHO project.

All vehicles have a log book completed by the driver. Review of the log books indicated a number of issues:

- The log book does not identify which project the vehicle is used for on each journey
- The log book is not consistently signed by the driver for every journey
- There are gaps in the log book where the mileage at the start of one journey is higher that the mileage at the end of the previous.

Vehicle costs are not allocated based on actual usage. An estimate is made on a monthly basis by the FAC. It is recommended that use a more scientific method of allocating project costs. Log books should be amended to include the project code for each journey and this data should be used to allocate fuel costs.

Fuel consumption of vehicles is calculated by the FAC on a monthly basis and recorded on the Car Pool Report. does not hold its own stock of fuel.

The lessor is responsible for the insurance and registration of leased vehicles. Copies of these documents are kept in the vehicle. The vehicles are parked in a secure car park, with guards and CCTV close to the office. At weekends the vehicles are returned to the car leasing company.
The policy for private use of vehicles is documented in the Logistics Manual and prohibits any personnel use of vehicles unless authorised by the Country Director.

9.2 **Auditor's Assessment of Fixed Asset Registration**

Policies and procedures regarding fixed assets are not satisfactory in all respects and would be improved by implementing the recommendations listed in section 1.3 and Annex 1.