

Improving internal controls: the EY guide for humanitarian aid organizations

2015



Building a better
working world

Foreword



Humanitarian aid resource and delivery framework

Relief, development and non-governmental organizations do exceptional and inspiring work in the immediate aftermath of disasters and, longer term, in helping communities to rebuild and local economies to recover.

A major challenge for many of these agencies is managing the influx of donations they receive when disaster strikes.

How effectively organizations manage these funds not only affects the people the donations are meant to help, but also the trust people have in the relief efforts and those leading them. If funds aren't managed well, it can challenge the perceived value that an organization delivers and may damage the image of the affected country or community. It can also jeopardize future donations.

To help relief, development and non-governmental agencies manage donations and operate transparently we publish and distribute this free toolkit. It was first produced in 2005 in response to the Indian Ocean tsunami. It provides a framework for humanitarian aid resourcing and contains procedures that can improve operational efficiency and transparency for any organization tasked with responding to a disaster.

The guide has been used as the basis for disaster-relief training workshops across the globe. We hope it continues to be a valuable resource for relief agencies as they continue their important work.

Mark A. Weinberger,
Global Chairman & CEO

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Contents

- ▶ Introduction 5
- ▶ Who is this guide for? How does it fit your NGO? 9
- ▶ Structure and levels of controls within an NGO 13
- ▶ Tailoring *Improving internal controls* to your organization 32
- ▶ Core modules 44
- ▶ Expanded modules 52
- ▶ Glossary of terms 55
- ▶ Frequently asked questions 58

In the accompanying booklet:

- ▶ Core module details
- ▶ Expanded module details
- ▶ “Pick List”

Introduction



Introduction

What does it mean ...

- ▶ Natural disasters are terrifying and shocking, but they are not unusual. The United Nations Development Programme estimates that 75% of the earth's population lives in areas that were affected at least once by earthquake, tropical cyclone, flood or drought between 1980 and 2000.
- ▶ And many more people may be even more vulnerable in the future, as climate change exacerbates the number and severity of extreme weather events.
- ▶ For relief organizations and non-governmental organizations (NGOs) of all kinds, preparing to help people at risk means more than just preparing to spring into action whenever and wherever nature unleashes its fury.

... to be prepared for disaster?

- ▶ It also means preparing for the generosity of many, many donors in a world where charity is increasingly democratized and the ease of donating by text message has created many new givers.
- ▶ It means being able to prove to those donors that their funds have been used as effectively as possible to ease immediate sufferings and to help rebuild lives in the long term.
- ▶ It means developing the organizational capacity to meet the enormous challenges presented by a natural disaster, both in the midst of emergency and during a rebuilding process that may take years, putting the structures in place that allow you to do your best possible work.

Introduction

Philippines

On 8, November, 2013, Typhoon Haiyan devastated parts of the Philippines. The death toll estimate is 5,500 with a further 1,700 missing. Haiyan is believed to have damaged or destroyed at least 6 million homes.



Haiti

On January 12, 2010, an earthquake of magnitude 7.0 struck near the capital city of Port-au-Prince. It killed 230,000 people and displaced 700,000 in Port-au-Prince alone, with 3 million affected in total. Poverty and low construction standards amplified the devastation.

Chile

On February 27, 2010, an earthquake of magnitude 8.8 struck central Chile. Thanks to high construction standards, fewer than 500 people were killed. However, the earthquake and resulting tsunami caused widespread property damage, displacing 1.5 million people.

China

On May 12, 2008, an earthquake of magnitude 7.9 hit the Sichuan Province, a mountainous regions in western China, killing approximately 70,000 people, including thousands of schoolchildren.

Indian Ocean tsunami

With more than 200,000 people killed and an estimated 1.6 million people displaced across 14 countries, the tsunami that struck on December 26, 2004, was the deadliest tsunami in recorded history.

Introduction

What is expected by ... the donors?

Those affected?

Stakeholders at large?

Donors, recipients and stakeholders expect that funds allocated to relief efforts will be spent effectively and efficiently in accordance with:

- ▶ What the affected people need
- ▶ Objectives set by the donors

Funds must not be diverted unintentionally to other purposes or activities. Such diversion would be contrary to effective and efficient use.

Therefore, standards of accountability, transparency and trust for all those involved in relief work need to be set at the highest possible levels.



The best way to make sure that both expectations and standards can be met is to establish a proper system of internal controls that is commensurate with the risk involved.

A system of internal controls will safeguard assets, improve reliability of the accounting data, improve compliance with applicable laws or contractual obligations, and promote operational efficiencies.

EY — call to action

When the tsunami struck in 2004, EY, along with almost every other organization in the world, struggled with the question of how to best support the relief and rehabilitation in disaster-affected areas.

Our answer was provide organizations with what EY knows best — a toolkit of processes and procedures, incorporated with internal controls, that can be implemented by an NGO or not-for-profit organization to provide reasonable assurance that the funds allocated to disaster relief or recovery efforts are spent effectively and efficiently.

Improving internal controls: the EY guide for humanitarian aid organizations

Improving financial controls provides process maps, controls and flows for humanitarian aid resourcing and delivery — from fund allocation to aid distribution, including the accounting and reporting of these activities. It describes the control points and provides “what can go wrong” indicators for subsequent review and evaluation of internal controls.

Its modular design allows organizations to adopt the components they require depending on their size and operational requirements.

Who is this guide for? How does it fit your NGO?



Who is this guide for? How does it fit your NGO?

Identifying the need for a toolkit

Charitable organizations are established to provide vital assistance to people living in poverty or to those affected by natural disasters or war. Often, these situations are complex and create practical difficulties, even for the most experienced organizations.

When catastrophe first strikes, the primary focus is to provide as much relief as quickly as possible; often, there may be only a few systems of control in place during these activities.

In affected countries, the extent of the devastation is on a scale that some NGOs are not accustomed to dealing with. Significant reconstruction and rehabilitation is required before communities can function at even basic levels and normality returns to the lives of those displaced by the disaster. Some NGOs providing disaster relief or reconstruction support currently are struggling with a wide range of problems and face important decisions over the proper allocation of money involved in reconstruction efforts. Others do not have the resources, capacity or systems of control to meet the expectations placed upon them.

To meet such challenging circumstances, NGOs need the flexibility and freedom to decide the best way to achieve their charitable aims while meeting the overarching objective of ensuring that the funds available for charitable purposes offer maximum benefit for the intended recipients.

To maintain the trust it has been given, an NGO must demonstrate that all of its assets are being used to meet stated objectives. Donors need to know that their contributions are being used for their intended purposes. Accountability and transparency are essential to maintain the confidence of donors. This can be achieved only if adequate procedures and controls are in place.

Improving financial controls, as described in the following sections, highlights how procedures and controls are crucial in demonstrating accountability and transparency. At the earliest possible moment, when there is time to assess operational requirements, it is critical that systems of control are established.

Who is this guide for? How does it fit your NGO?

Improving financial controls documents the operating processes and procedures applicable to an NGO. It also incorporates the internal controls that are intended to improve the effectiveness and efficiency of an NGO's operational activities.

Improving financial controls begins with our Humanitarian Aid Resource and Delivery Framework, which depicts the three cycles of aid resource and delivery:

- ▶ Receipt — establishing agreements between donor(s) and the NGO
- ▶ Expenditure — procuring, delivering, disbursing, accounting and reporting of aid delivery
- ▶ Requisition — telling the donors what and how much is needed, as well as acknowledging receipt of aid given

Within each of the three cycles, this guide is structured as a series of process modules setting out the various information, document and transaction flows.

These process modules identify and describe the control points and give “what can go wrong” scenarios to determine if the internal controls are working.

It is meant to be a reference guide for an NGO about the process modules that are relevant to its operations, starting with the core modules common among most: cash receipts, inventory management, purchase, human resource management, delivery, cash disbursement, petty cash, accounting, reporting, budget preparation and requisition approval, recipient requisition, and recipient receipt.

In this way, Improving financial controls becomes a resource to help an NGO overcome one of its key challenges of aligning the needs of its recipients with the ongoing purchase, delivery and receipt of aid. The guide also can help to establish levels of accountability and transparency intended to satisfy donor objectives.

Who is this guide for? How does it fit your NGO?

Who is Improving financial controls for?

This guide is primarily intended for use by the following organizations:

- ▶ NGOs that are planning to establish themselves in or beyond disaster-affected countries (or have been recently established) and that would like to adopt a system of internal controls to help make sure relief reaches the intended recipients and can be accounted for
- ▶ Existing NGOs that wish to improve the current standard of their procedures and internal controls, or enhance the overall capacity of their organization and that of their partners
- ▶ Donor entities intending to grant funds to an NGO partner and who may require the adoption of suitable internal controls by the NGO as a condition for the grant
- ▶ Government bodies seeking a benchmark for comparison with processes and procedures used in government aid programs

How does it scale to fit your NGO?

This guide can be adapted to fit NGOs, varying from a simple to complex type of operational structure. The Toolkit provides a scalable system of internal controls for an NGO depending on its:

- ▶ Size
- ▶ Organizational structure
- ▶ Objectives and kinds of activities undertaken
- ▶ What's required by the ultimate donors

Based on its own set of operational and control objectives, an NGO is able to select different modules that best fit its requirements. Through the use of a "Pick List," Improving financial controls can be adopted to meet varying levels of sophistication and control requirements.

Structures and levels of controls within an NGO



Structures and levels of controls within an NGO

Why do donors or NGOs need to put internal controls in place?

Internal controls are processes designed to provide reasonable assurance regarding the achievement of objectives. These processes, effected by an entity's board of directors, management and other personnel, can be organized into the following categories:

- ▶ Operational — effective and efficient use of resources
- ▶ Compliance — compliance with applicable laws and regulations
- ▶ Financial reporting — reasonable assurance on reliability of financial reporting

It is vitally important for an NGO to ensure that the donations it receives from various donors are used according to their objectives and that no amount or quantity is unintentionally diverted for other purposes or activities.

Material aid such as food, clothing or medicines are tangible items of value that can be used by people other than the intended relief recipient. Because these goods can be exchanged for money, there is inherent risk that “handlers” of these goods may take advantage in this situation if internal controls are insufficient.

For example, when these goods are moved from their source, such as suppliers' warehouses, to the intended recipient, it is possible that some may be “diverted” — possibly through an unauthorized withdrawal from the warehouse or an authorized withdrawal but a delivery to unauthorized recipient.

Remember, assets are not limited to goods and services; they also include cash, fixed assets, human capital and any other resource of value.

Internal controls, therefore, are necessary to safeguard all assets of the NGO, improve reliability of the accounting data, improve compliance with applicable laws or contractual obligations, promote operational efficiencies, and meet the needs of stakeholders.

Structures and levels of controls within an NGO

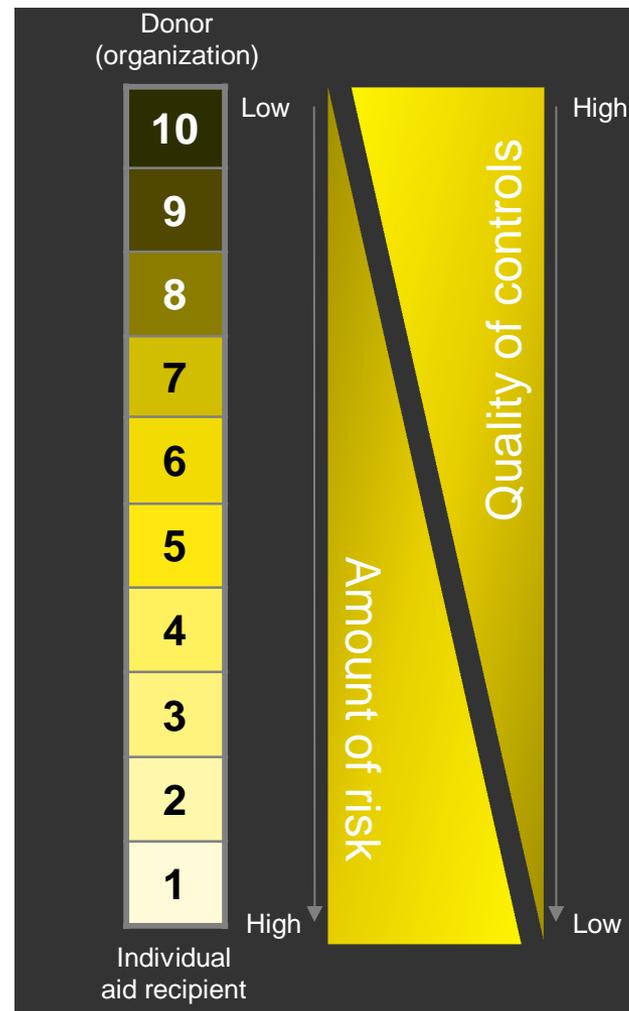
How much “control” does an NGO need?

There is an inverse correlation between the quality of internal controls and the amount of risk an organization faces. The better the quality of internal controls, the greater chance an organization has to minimize the risks it faces.

In general, large donor organizations, many of which deal with large sums of money, have quality internal control systems in place to minimize the risk of financial loss. However, at points of aid distribution, controls are fewer and the risk of inappropriate distribution is greater.

One might argue that the amount of losses that may be incurred in the field are much smaller because the financial scale is so much different than large donor organizations — “what is the cost of just one blanket?” But aid lost to one recipient suggests that aid may be lost to many. Every NGO has an understood mandate to maximize the reach of its aid distribution and to minimize overhead costs.

There is always a trade-off between the financial and operational costs of developing a suitable internal controls system versus the potential loss that may be incurred. Therefore, it is important to understand the cost benefits of an internal control system and to determine what is an acceptable amount of risk and loss an NGO is willing to accept before deciding to what depth controls should be applied.



Structures and levels of controls within an NGO

How much “control” does an NGO need? An example ...

The amount funded by the funding donor should equal the sum of the total amount distributed to individual recipients less administrative costs.

Optimal:

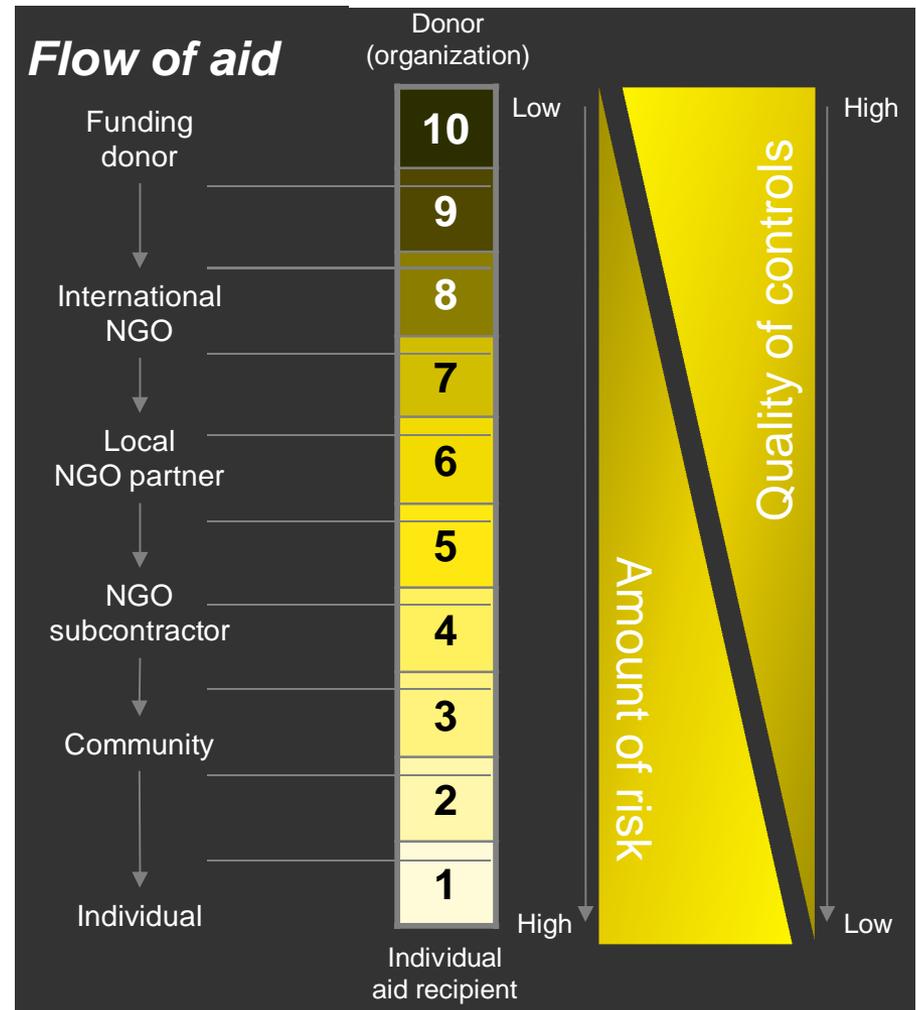
The funding donor provided money for 10 blankets, and 10 recipients acknowledged receipt of 10 blankets.

What if:

The funding donor provided money for 10 blankets, and 10 blankets were given to the community for distribution. Do we know whether 10 recipients received blankets or if some were sold or not distributed at all? Without acknowledged receipt by intended recipients, the answer is no.

Conclusion:

To determine the efficacy of an aid model, you need to know and measure how much aid was actually received by the intended recipients. This type of information allows NGOs to determine not only how effective their programs are, but also to detect (and correct) leakages.



Structures and levels of controls within an NGO

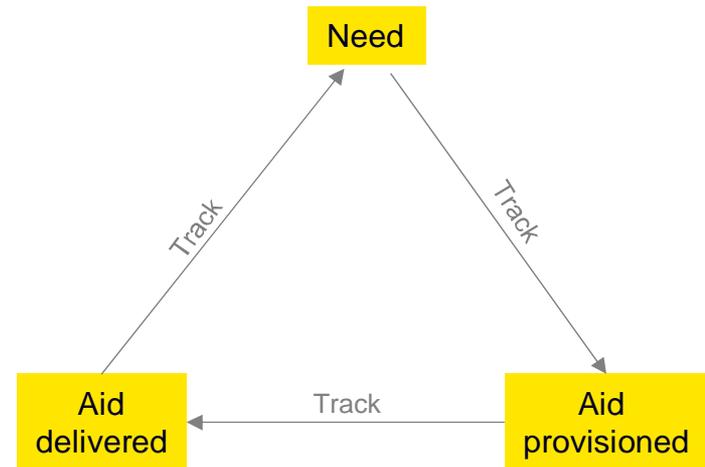
Where does control begin?

Standards of accountability, transparency and trust for an NGO should be set at the highest possible levels. Yet, the quality of internal controls and systems within an NGO to provide these critical aspects may often be weak or less developed.

For NGOs, control actually starts by knowing and tracking what is being provided to the intended recipients. Establishing recipient needs and putting in place the ability to track how they are being served enables accurate accountability for how donated resources are translated into aid given/received. Coupling this with a robust approval process establishes the required communication between recipients and donors that allows more effective and efficient relief distribution.

This system not only allows NGOs to measure what percentage of each donated “dollar” becomes actual aid received by the intended recipients, it also helps them to improve the effectiveness and efficiency by identifying which donations are converted to aid.

Lack of assurance as to the effective delivery of charitable endeavors (e.g., not all spending translates into benefit to the recipients) may not meet the donor’s objectives and goals.



“Donors must apply transparent quality control processes, which help ensure that material aid sent will meet explicit needs while upholding the dignity of the recipients.”

Source: International NGO Aid Guideline

Structures and levels of controls within an NGO

Approaching the aid cycle from the intended recipient

“Without a recipient there would be no charitable activity.”

Therefore, understanding the needs and gathering information about recipient needs is foremost to establishing control within the aid cycle. Besides giving a “face” to the recipients, this information will accurately establish:

- ▶ Amounts of relief goods or services that an NGO needs to buy, procure or build
- ▶ Levels of expenditures required
- ▶ Required packaging and systems of delivery

By having this information, it is also possible and important to:

- ▶ Understand what the expected versus the actual needs were so that benchmarks can be set for future relief provisioning
- ▶ Identify and correct abnormal consumptive behaviors

Who is a recipient?

A recipient can be defined as a person, family, cooperative, municipality, business or even organization. Essentially, it is a “measurable unit” that knows what it needs as well as can acknowledge and be accountable for the aid it receives.

Case study

In Aceh, Indonesia, a construction company was awarded a contract for the construction of temporary homes.

The company wanted to build these homes nearby or in the fishing villages that had been destroyed. But ownership of the land hadn’t been established, and therefore it was impossible for construction to begin.

With mounting pressure from both the local government and donors to do something quickly, a suitable piece of land was found 2 km away.

Construction began nearly as quickly as it ended. Temporary shelters had been built.

Unfortunately, to this day, few are living in the shelters because they were built too far away from the village’s principle source of income — the sea.

Were everyone’s objectives met in this case?

Structures and levels of controls within an NGO

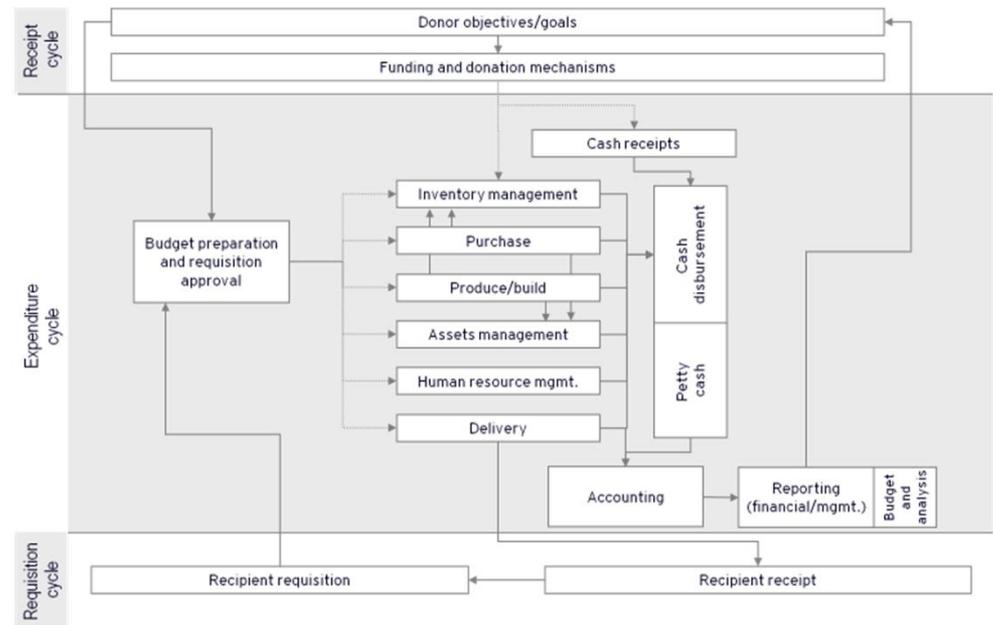
Controls and the Humanitarian Aid Resource and Delivery Framework

EY's Humanitarian Aid Resource and Delivery Framework depicts the overall aid cycle and the key processes within it, from the donor to the recipient for the receipt of donations to the procurement, delivery, disbursement, acceptance and accounting of relief goods and services. The overall aid framework is broken into three cycles, and the requisite controls are embedded within each business process.

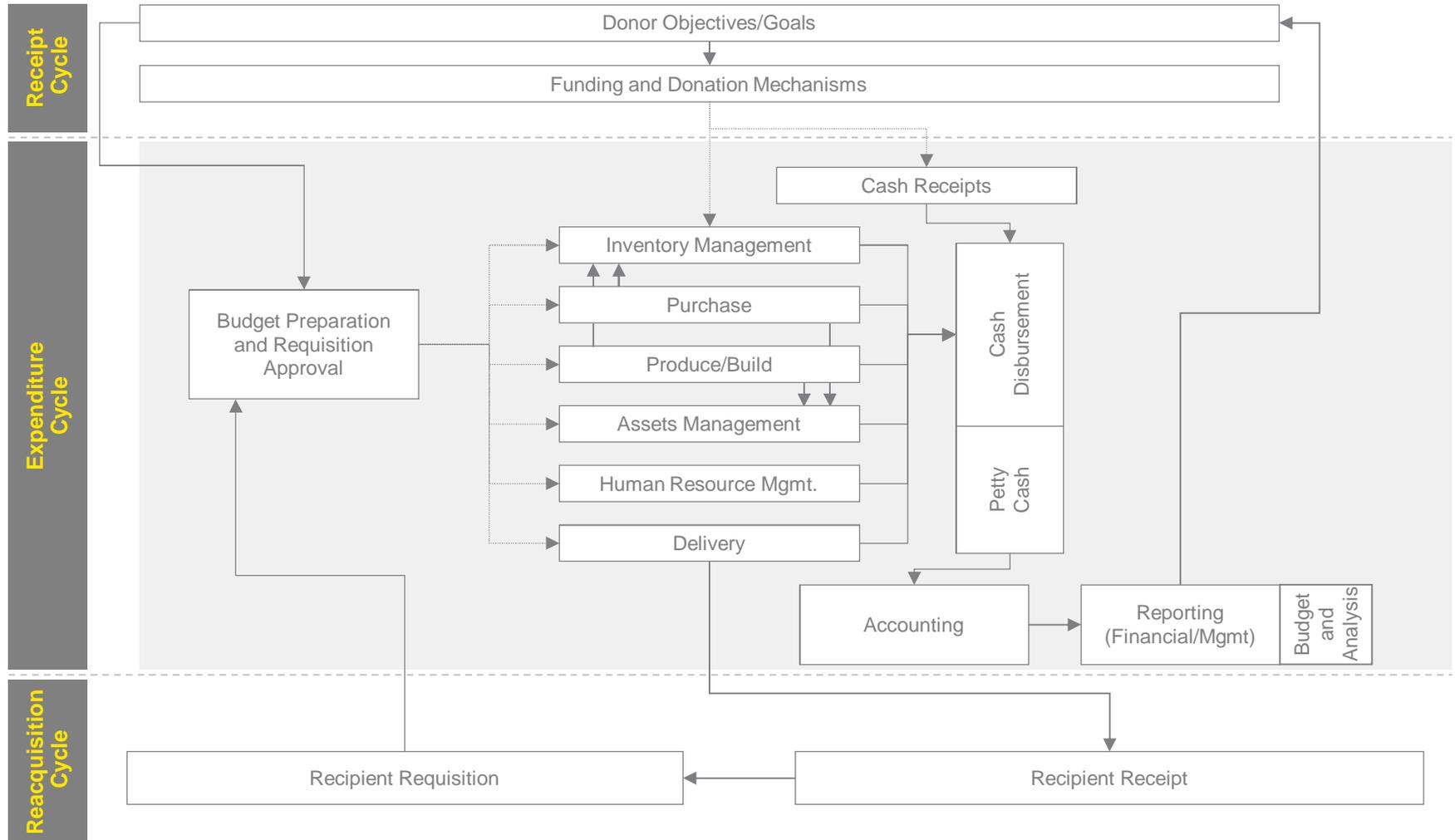
Receipt cycle: establishing agreements between donor(s) and the NGO; collecting donations in accordance with objectives and agreements.

Expenditure cycle: procuring, delivering, disbursing, accounting and reporting of aid delivery; also includes human capital, services and other resources used in the delivery of aid.

Requisition cycle: telling the donors what and how much they need as well as acknowledging receipt of aid given.



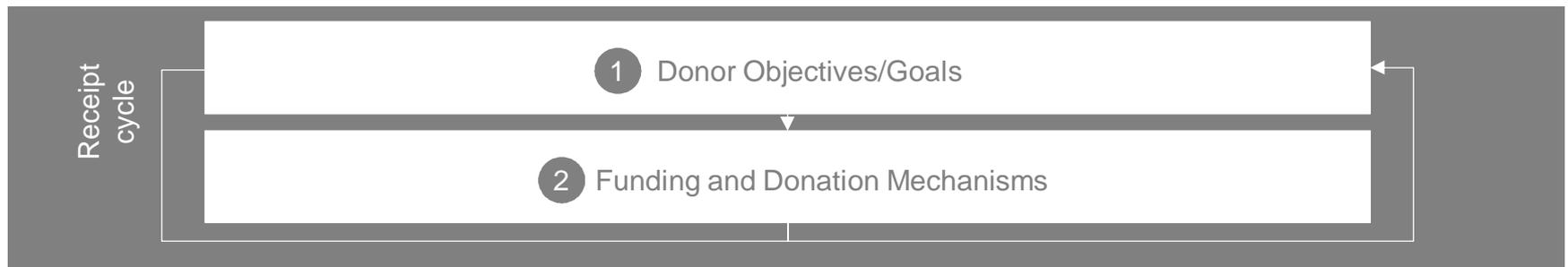
Humanitarian Aid Resource and Delivery Framework



Structures and levels of controls within an NGO

Receipt cycle components — the Humanitarian Aid Resource and Delivery Framework

Establishing agreements between donor(s) and the NGO; collecting donations in accordance with objectives and agreements.



1 Donor objectives/goals

Establishing and maintaining humanitarian guidelines that include proactively determining what recipient needs actually are and ensuring that those determined needs are responded to appropriately.

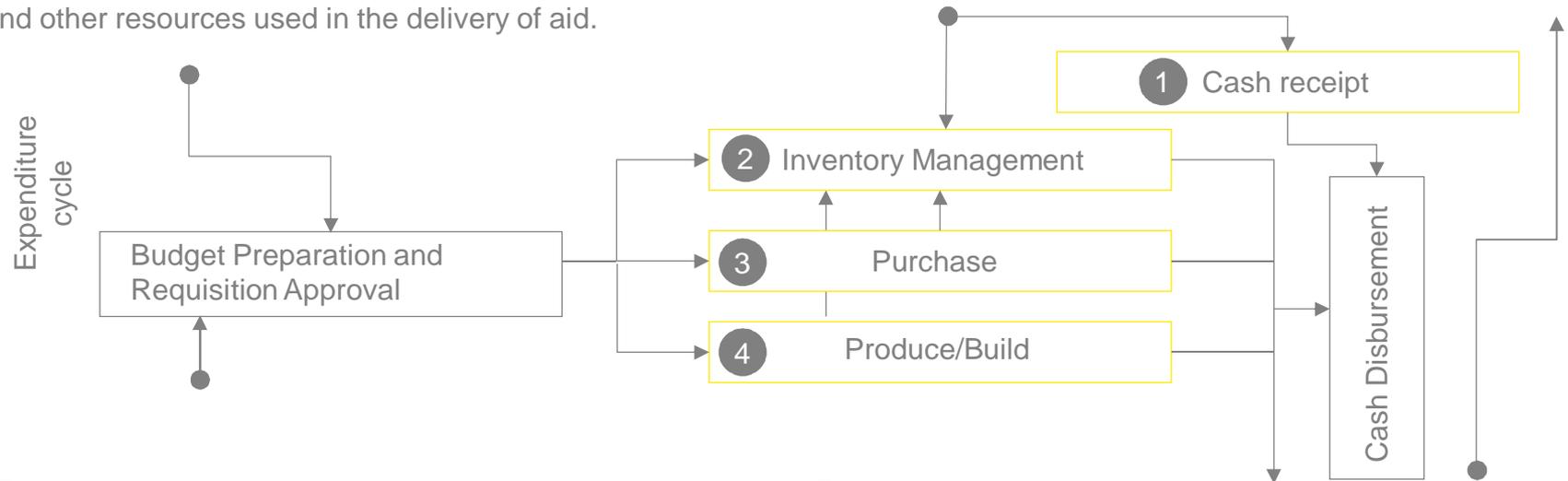
2 Funding and donation mechanisms

Requesting or receiving monies, goods or services from donors through fundraising, donations, grants, sponsorships, collections or other activities.

Structures and levels of controls within an NGO

Expenditure cycle components — the Humanitarian Aid Resource and Delivery Framework

Procuring, delivering, disbursing and accounting and reporting of aid delivery; also includes human capital, services and other resources used in the delivery of aid.



1 Cash receipts

Recording donor funds and other cash received into the bank account. Reconciling bank balances between the organization's books and bank statements.

2 Inventory management

Managing goods/services from the point they are received and warehoused through to distribution to the recipients.

3 Purchase

Purchasing goods/services for the recipients, which includes assessing and appointing vendors, contracting, and creating purchase orders.

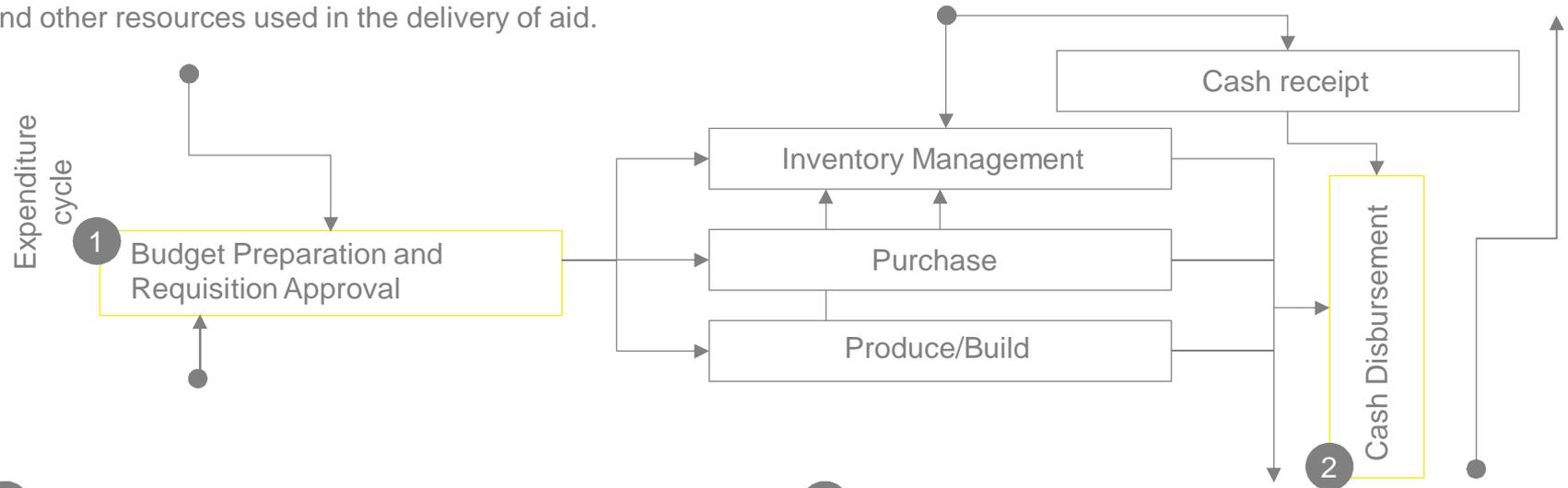
4 Produce/build

Producing/building goods, facilities or services based on the recipients' needs.

Structures and levels of controls within an NGO

Expenditure cycle components — the Humanitarian Aid Resource and Delivery Framework

Procuring, delivering, disbursing and accounting and reporting of aid delivery; also includes human capital, services and other resources used in the delivery of aid.



1 Budget preparation and requisition approval

Assessing proposed budget (new or additional) against the recipients' criteria and donor's objectives and goals. Managing receipt information, matching it with approved requisitions and analyzing variances.

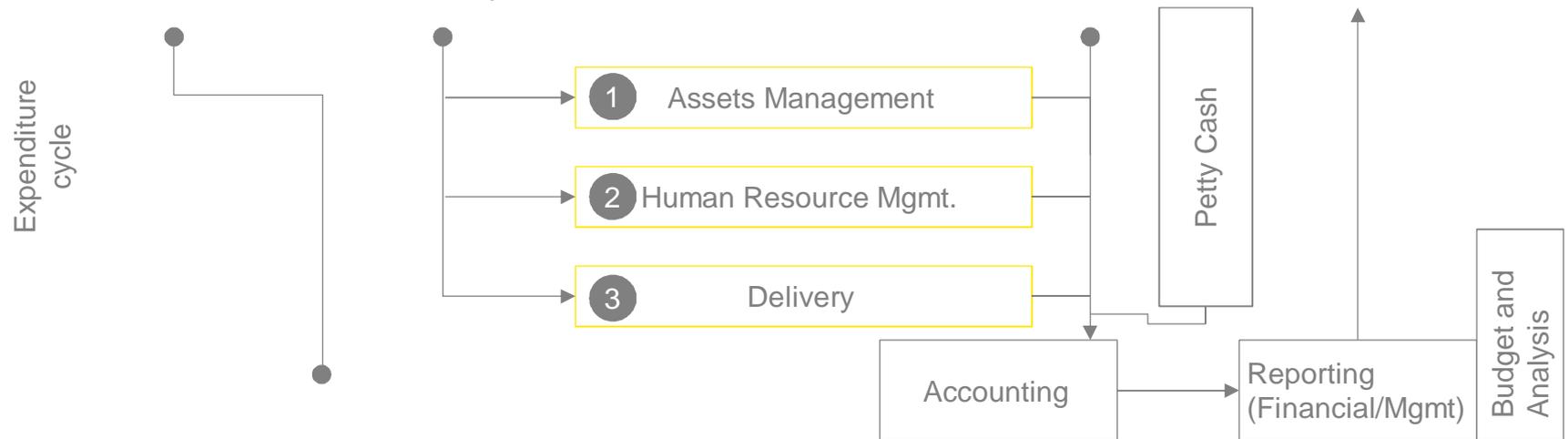
2 Cash disbursement

Payment by check or bank transfer to suppliers for employee payroll and petty cash replenishment.

Structures and levels of controls within an NGO

Expenditure cycle components — the Humanitarian Aid Resource and Delivery Framework

Procuring, delivering, disbursing and accounting and reporting of aid delivery; also includes human capital, services and other resources used in the delivery of aid.



1 Asset management

Managing the life cycle of a fixed asset from purchase to transfer and maintenance and finally disposal.

2 Human resource management

Administering human resources from recruitment and promotion to resignation or termination. Calculating payroll amounts based on employee attendance.

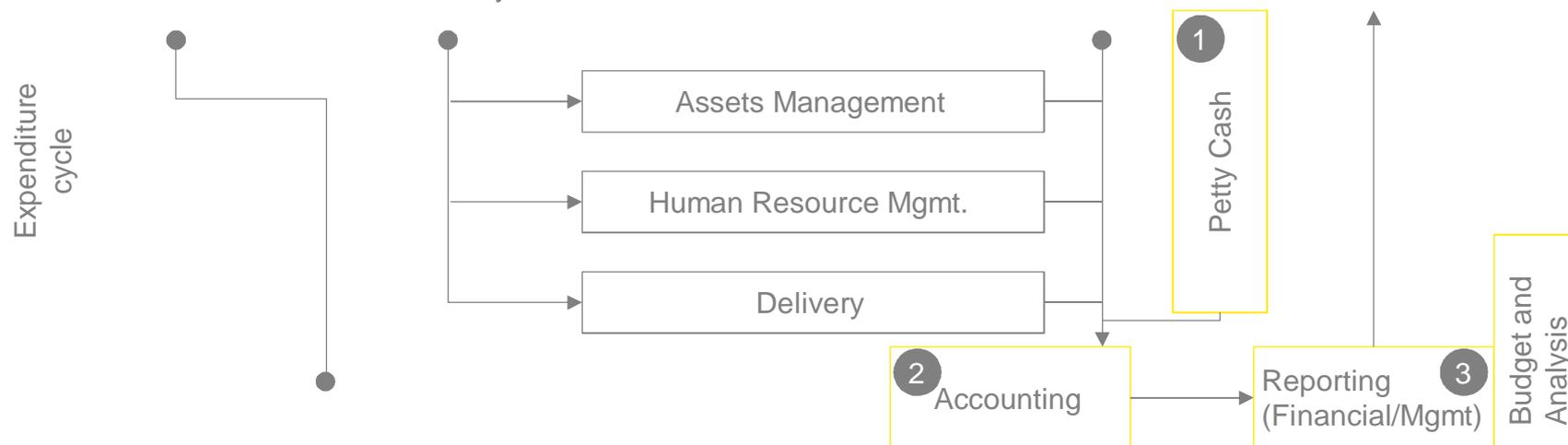
3 Delivery

Loading, transporting and unloading materials and goods.

Structures and levels of controls within an NGO

Expenditure cycle components — the Humanitarian Aid Resource and Delivery Framework

Procuring, delivering, disbursing and accounting and reporting of aid delivery; also includes human capital, services and other resources used in the delivery of aid.



1 Petty cash

Managing petty cash: requests, issuance and replenishment.

2 Accounting

Recording, valuing, classifying, summarizing and posting daily transactions.

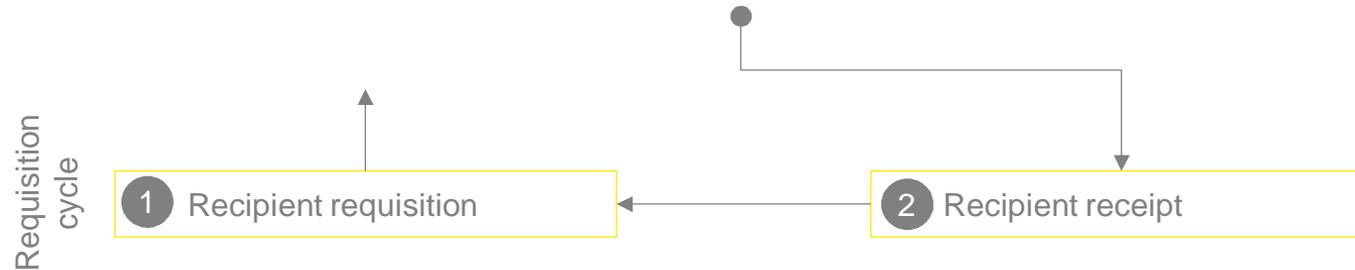
3 Reporting (financial/management)

Preparing financial statements, analyzing financial information, monitoring operational performance and reporting on it.

Structures and levels of controls within an NGO

Requisition cycle components — the Humanitarian Aid Resource and Delivery Framework

Telling the donors what and how much recipients need as well as acknowledging receipt of aid given.



1 Recipient requisition

Requesting goods and services by the recipients.

2 Recipient receipt

Distributing goods and services to the recipients and collecting evidence (receipts) that they have been received.

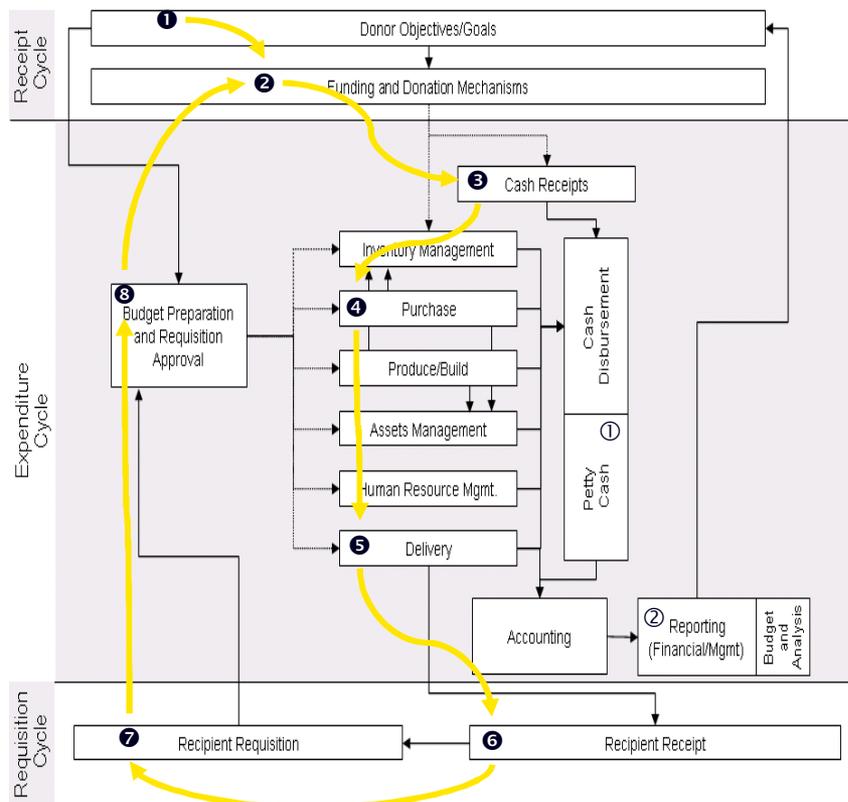
Structures and levels of controls within an NGO

Tracing the first-time provisioning of relief goods and services

- 1 Based on its mission, donor establishes perceived recipient needs.
- 2 Monies, goods or services are collected from funding mechanisms (i.e., from other donors, fundraising, etc.).
- 3 Monies, goods or services collected are made available for aid work through a deposit into a bank account or into an inventory management system.
- 4 Goods, facilities or services are purchased, produced or built according to the mission and perceived needs of the recipients.
- 5 Goods or services are distributed through aid delivery channels.
- 6 Goods or services are received and acknowledged by the recipient.
- 7 Based on better understanding of recipient needs, requisition for additional aid is made.
- 8 Requisition for additional aid is approved by matching requisitions and receipts along with donor mission and objectives.

Periodically:

- 1 Payments are made for goods, facilities or services purchased, produced or built.
- 2 Amounts used and amounts paid are recorded. Periodic reports are produced that account for activities conducted and aid received.



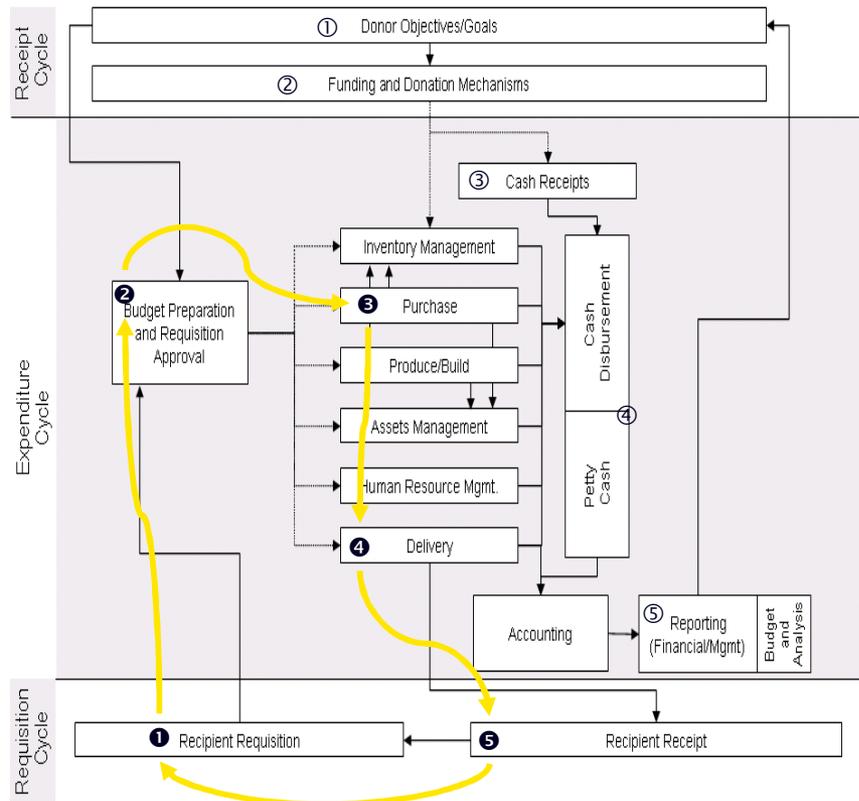
Structures and levels of controls within an NGO

Tracing the ongoing provisioning of relief goods and services

- 1 Based on better understanding of recipient needs, requisition for additional aid is made.
- 2 Requisition for additional aid is approved by matching requisitions and receipts along with donor mission and objectives.
- 3 Goods, facilities or services are purchased, produced or built according to the mission and perceived needs of the recipients.
- 4 Goods or services are distributed through aid delivery channels.
- 5 Goods or services are received and acknowledged by the recipient.

Periodically:

- 1 Based on its mission, donor establishes perceived recipient needs.
- 2 Monies, goods or services are collected from funding mechanisms (i.e., from other donors, fundraising, etc.)
- 3 Monies, goods or services collected are made available for aid work through a deposit into a bank account or into an inventory management system.
- 4 Payments are made for goods, facilities or services purchased, produced or built.
- 5 Amounts used and amounts paid are recorded. Periodic reports are produced that account for activities conducted and aid received.



Structures and levels of controls within an NGO

Applying COSO to the Humanitarian Aid Resource and Delivery Framework

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) issued Internal Control — Integrated Framework, which contained five key components of internal control for an organization: control environment, risk assessment, control activities, information and communications, and monitoring. This framework is one of the key guidelines of internal control upon which most auditing standards are based.

COSO reminds NGOs to also develop a reasonable control environment (e.g., code of conduct) and continually assess the risks they face.



Embedded in core business processes

Control environment:

Attributes of the people conducting the entity's activities and the environment in which they operate.

Control activities:

Policies and procedures established and executed that enable management's directives to be carried out.

Information and communication:

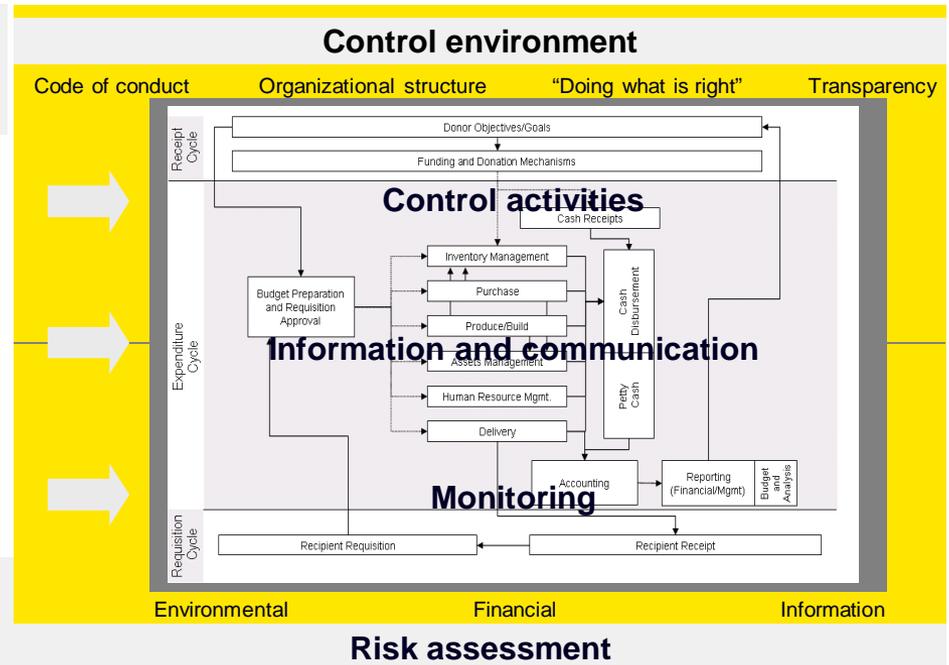
Systems enabling identification, capture and exchange of information for the conduct and control of operations.

Monitoring:

Assess performance of internal control over time and make modifications as conditions change.

Risk assessment:

Establish objectives and mechanisms to identify, analyze and manage risks.



Structures and levels of controls within an NGO

Control environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. The successful operation of the other elements of internal control depends on building a control environment in which top management continually emphasizes the performance of control procedures. Sub-elements of the control environment include:

- ▶ Integrity, ethical values and behavior of key executives
- ▶ Management's control consciousness and operating style
- ▶ Management's commitment to competence
- ▶ Board of directors and/or audit committee participation in governance and oversight
- ▶ Organizational structure and assignment of authority and responsibility
- ▶ Human resource policies and practices

Risk assessment

Because the operating conditions in which the organization functions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

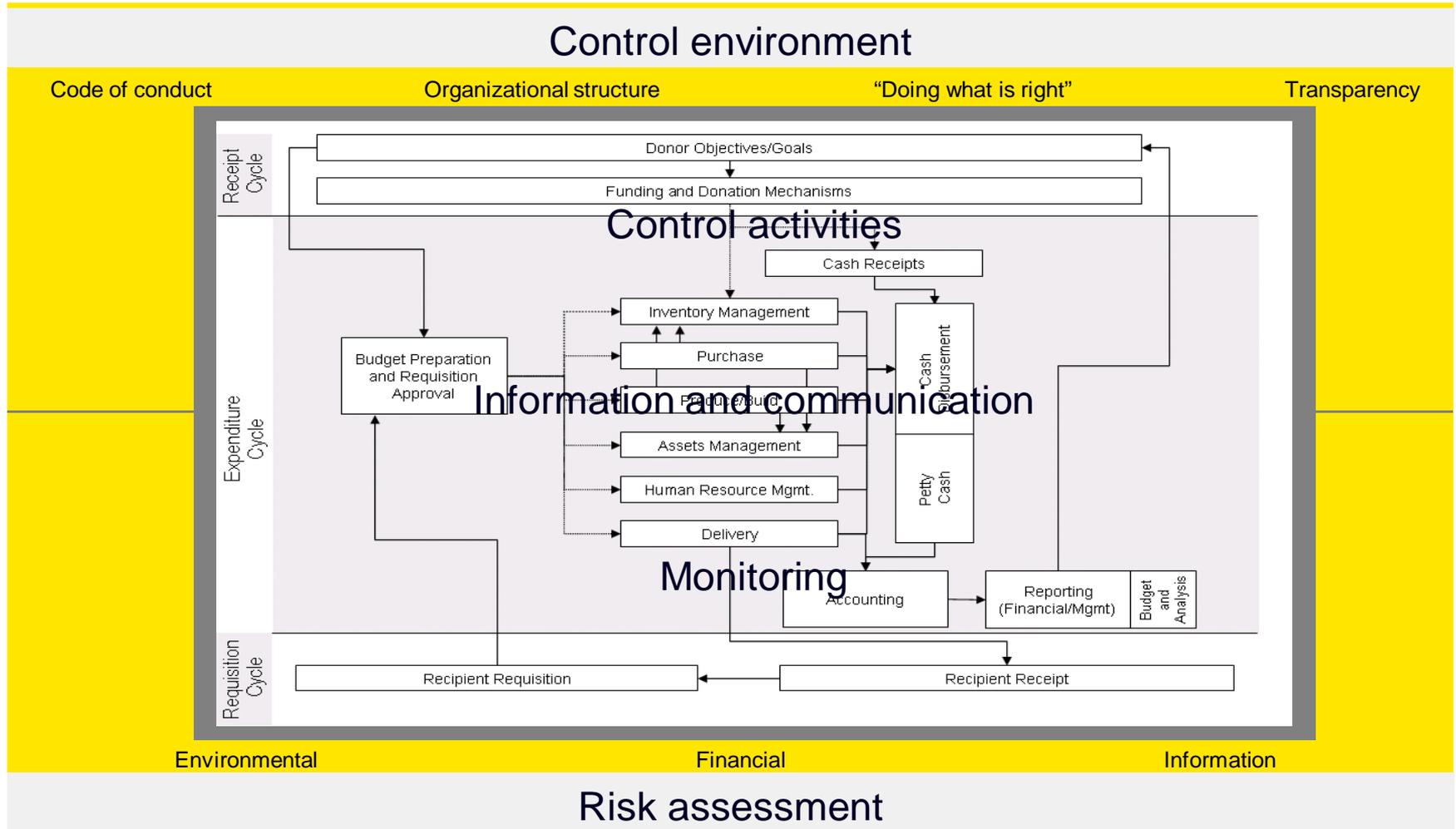
Risk assessment is the identification and analysis of relevant risks that represent a threat to the achievement of the organization's objectives, which then requires consideration of how to address and manage the risk.

Risk assessment by top management requires them to:

- ▶ Identify, analyze and assess the risks faced by the organization
- ▶ Determine risk limits and the techniques for control of the risks
- ▶ Develop and implement internal controls for the organization to address these risks



COSO and the Humanitarian Aid Resource and Delivery Framework



Tailoring this guide for your organization



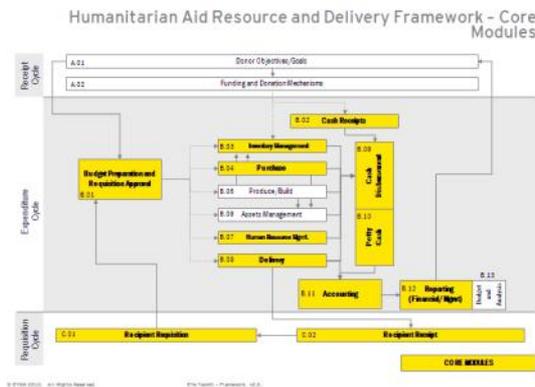
Tailoring this guide for your organization

How can these principles of control be applied to our organization?

“One size does not fit all.”

Each NGO services recipients in different ways. Some provide medical services while others may manage schools, reunite separated family members or even build sewage treatment facilities. However, common among them all is the requirements of internal control, accountability and transparency.

Because this guide is modular, an NGO can pick and adopt the process modules that apply to its organization, organizational structure, charitable activities, operational structure and/or the desired level of internal controls.



Core modules

Budget preparation and requisition approval

- Budget preparation
- Recipient data maintenance
- Fund requisitions

Cash receipts

- Bank receipts

Inventory management

- Receipt of goods or services

Purchase

- Vendor assessment
- Direct appointment
- Tender
- Contract
- PO management
- Vendor database maintenance

Human resource management

- Recruitment
- Promotions
- Terminations
- Resignations
- Employee master data
- Payroll

Delivery

- Delivery scheduling
- Goods delivery

Cash disbursement

- Account payable
- Bank payment

Petty cash

- Petty cash payment and replenishment

Accounting

- Journal entries
- Reconciliations

Reporting

- Closing and reporting

Recipient requisition

- Recipient requisition of goods or services

Recipient receipt

- Recipient receipt of good or service

Tailoring the EYe Toolkit for your organization

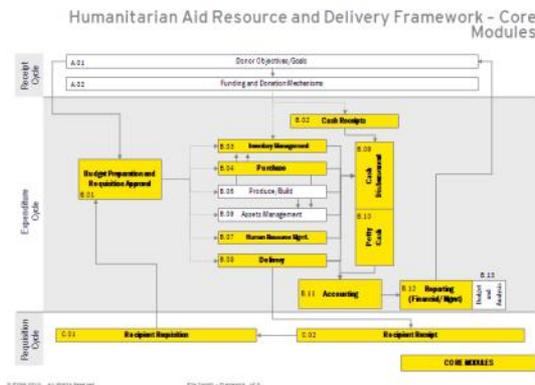
How can I make use of the expanded modules?

“One size does not fit all.”

The expanded modules of the guide are most applicable to NGOs that, in addition to distributing funds, are responsible for:

- ▶ Managing inventories of tangible items (food, medicines, shelter, etc.) to aid recipients
- ▶ Overseeing or implementing projects
- ▶ Acquiring and then managing fixed assets

In addition, the expanded modules also cover budget analysis and recipient satisfaction surveys, both important aspects of overall controls within the funding cycle.



Expanded modules

Funding and donation mechanisms

Funding and donation mechanisms

Inventory management

Inventory planning
Goods issuance
Physical count
Inventory monitoring

Produce and build

Planning and scheduling
Project execution and monitoring
Project inspection
Project amendment
Project acceptance/delivery

Asset management

Fixed asset requisition
Fixed asset receipt, capitalization and identification tag
Fixed asset transfers
Fixed asset disposals
Fixed asset physical inspection
Fixed asset maintenance

Budget and analysis

Budget analysis

Recipient receipt

Recipient satisfaction survey

Tailoring the guide for your organization

Step 1: setting the stage

Before applying the guide, it is important to align its concepts to your organization and vice versa. To do this, it is important to first look at:

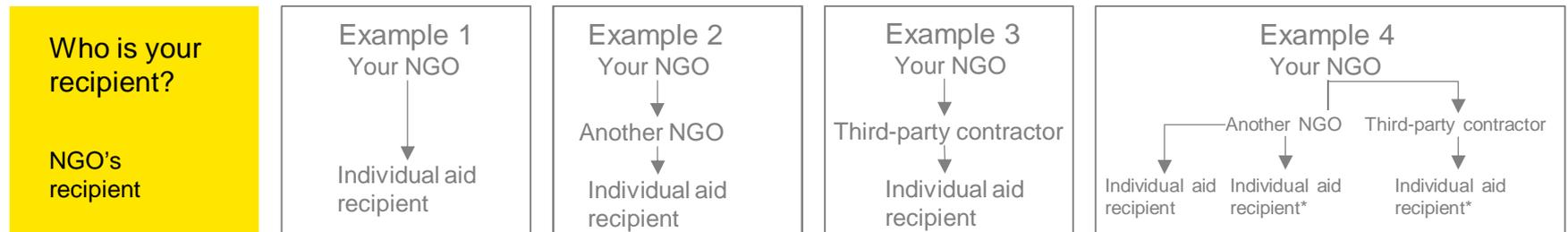
- ▶ Who is your “recipient”?
- ▶ **What is your desired level of internal control?**
- ▶ How much information technology is (or will be) available?
- ▶ What type of transactions are you involved with?
- ▶ How many people are in your organization, and what are their current roles?

Who is your “recipient”?

Does your NGO deal directly with individual aid recipients? Engage other NGOs to provide aid relief? Hire third-party contractors to provide services on behalf of your NGO? Use various combinations of aid disbursement?

The foundation for controlling the aid process requires:

1. Understanding who the individual aid recipients are and what they actually need. A recipient is a measurable unit that knows what it needs as well as can acknowledge and be accountable for aid it receives (e.g., person, family, organization, business, etc.).
2. Measuring the disbursement of the aid to the recipient through some form of receipt acknowledgement.
3. Reconciling needs with amounts disbursed and understanding any variances.
4. Having the ability within any sub-contractual arrangement to effectively measure the distribution and acknowledged receipt of aid.



***Important note:** although your “recipient” may be an intermediary, being able to establish what the ultimate recipients need and actually received adds significantly to confirming adequacy of controls from the donor to the ultimate individual aid recipient.

Tailoring the guide for your organization

Step 1: setting the stage



Who is your “recipient”?

An example

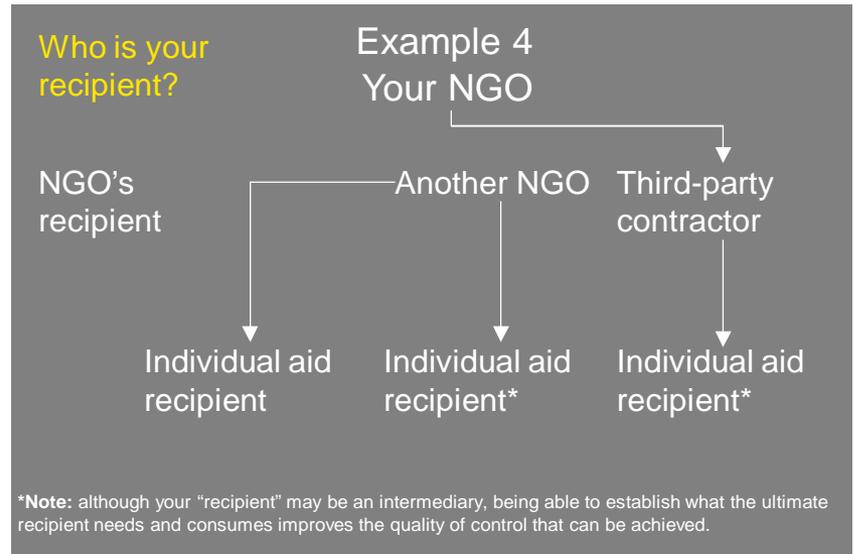
Your NGO deals with ultimate individual aid recipients and at the same time engages Another NGO and Third-party contractor to provide relief aid to other locations.

When Your NGO provides aid to Individual aid recipients, its likely that Your NGO can determine the Individual aid recipients' needs through a needs requisition form.

What about the other situations? How will Your NGO know 1) how much financial support to give to Another NGO or Third-party contractor and 2) whether it was used properly?

In both of these cases, the recipients' needs (Individual aid recipients of Another NGO and Third-party contractor) should be communicated to Your NGO through the completion of a needs requisition form. Individual aid recipients will request specific goods and services, while Another NGO and Third-party contractor will request money that will be used to buy relief goods for delivery to the recipients.

In all cases, the transaction flow will start with a needs requisition (request for relief goods, services or funds) from the Individual aid recipient. The request should be reviewed and approved. For goods and/or services, the transaction will flow through purchases and then to cash disbursements. For requests for funds, the transaction will go to cash disbursements. Delivery then will follow the usual delivery channel.



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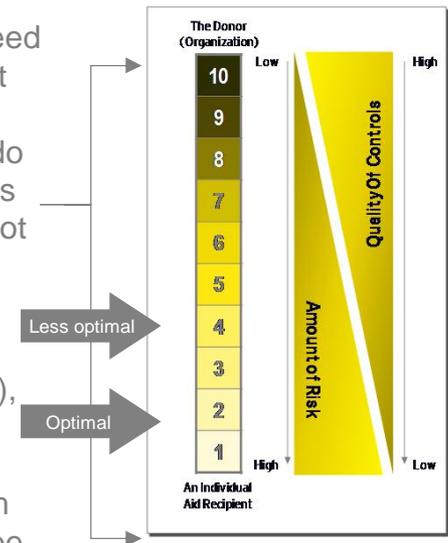
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What is your desired level of internal control?

It's easy to imagine the difficulties of not only determining what each recipient actually needs but also of measuring and getting acknowledgements of the aid received. Yet, this level of information provides an organization with the highest levels of internal control. The key question is: does the cost of gathering this level of information (in terms of time, money and capability) outweigh the benefits gained from this level of control?

If it is possible for your organization to measure need and acknowledge receipt at the lowest recipient level, then it is advised that you do so. Anything less introduces the risk that leakages will not be detected.

If not (because of cost, condition, level of capacity, the nature of the work, etc.), be aware that certain limitations are being introduced into your system of internal control that will be difficult to monitor.



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How much information technology is (or will be) available?

Using information technology (IT) to manage the information throughout Humanitarian Aid Resource and Delivery Cycle creates an opportunity for even higher levels of internal control because transactions, as well as the source and use of information, can be tracked, summarized and analyzed. Undoubtedly, an IT-based system allows an organization to manage, analyze and report from vastly larger amounts of data than a manual system. However, initial investments in an IT-based systems could be prohibitively large and would require qualified people to run it.

In general, manual systems may be more applicable to smaller-sized NGOs where data storage, management reporting and budget creation remain straightforward, as well as in an environment that limits access to IT and its infrastructure.

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- ▶ How many people are in your organization, and what are their current roles?

What type of transactions are you involved with?

Does your NGO employ staff? Build schools? Buy medicines? Purchase automobiles or motorcycles? Use a petty cash system? Pay vendors for goods purchased? Hire contract social workers?

Transactions will be regularly undertaken by an organization in the ordinary course of activities to meet its charitable objectives. Transactions represent either:

- ▶ An inflow of economic resources into the organization
Or
- ▶ An outflow of the organization’s economic resources to other parties, either externally for purposes directly related to charitable programs (such as purchase of goods for aid relief), or internally, such as employee salaries

Understanding what types of activities your NGO does throughout the course of its operations and the transactions those activities create will help to determine exactly what types of processes and controls will be required.

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How many people are in your organization, and what are their current roles?

Improving internal controls was designed for an organizational structure with 15 key employees, each undertaking a different function with varied responsibilities. As many NGOs will have fewer than 15 employees, in many cases it will be necessary to assign more than one function to an employee.

In order to help employees properly perform the procedures and to prevent any temptation to misuse funds, there must be a segregation of duties within certain functions. The critical functions and the respective procedures that should be separated between employees are:

Function	Duties or procedures to keep separate
Cash disbursement and petty cash	Authorizing payments, handling cash and recording transactions
Procurement	Ordering goods and receiving goods
Fixed assets and inventory management	Custody and safekeeping of the assets and maintaining records
Payroll	Maintaining payroll records and authorizing salary payment to employees
Accounting	Maintaining the detailed accounting records and performing reconciliations

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Step 1: setting the stage



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How many people are in your organization, and what are their current roles?

Segregation of duties

The concept of segregation of duties is crucial to the successful operation of an internal control system as it introduces a series of checks by employees on each others’ work and can significantly reduce the risk of fraud.

The basic requirement is that one employee should not have the responsibility to execute all stages of a transaction, from initiation and processing to recording payment or receipt of funds into the accounting system. Apart from weakening financial control, placing too much responsibility for a particular function on one person creates the risk that if he or she leaves the organization or is absent for long periods, then operation of that function will cease.

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Delegation of authority and authorization limits

Trustees delegate authority through the NGO executive director for the day-to-day running of the organization. However, in most organizations it is not practical to expect one person to make all the decisions and authorize all transactions. The executive director therefore, will further delegate authority to other managers and grant them restricted levels of decision-making in areas related to their job responsibilities.

Basic guidelines that should be followed when delegating authority include:

- ▶ Any limits or conditions that apply to delegated authority must be clearly defined. For example, a person may be authorized to commit expenditures up to a specified amount. These limits are usually documented in an authorization table that defines the authority to approve transactions for various levels of management.
- ▶ No one should authorize any transaction from which they will personally benefit. This exposes the individual to claims of impropriety and calls into question the honesty of management.
- ▶ Subordinates must not authorize payments to managers; they must be passed to someone who is more senior in the management structure.

Tailoring the guide for your organization

Step 2: picking the right modules for your NGO

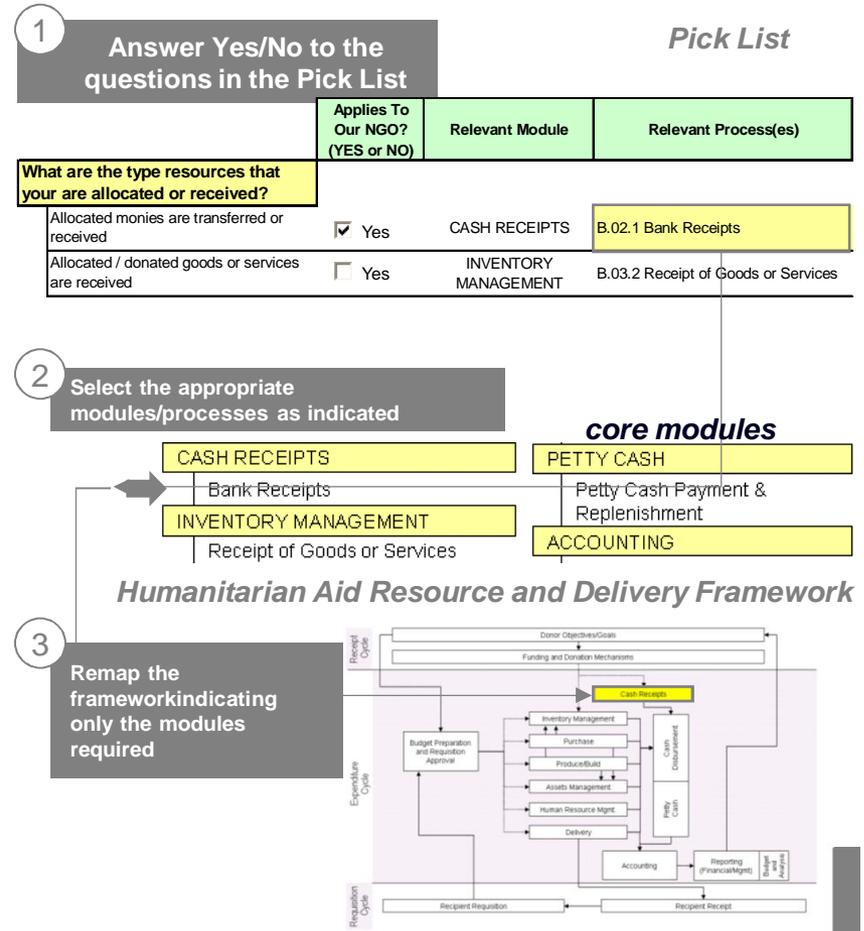
As a guide, EY has developed a “Pick List” to capture operational factors that would indicate what modules are appropriate and should be adopted.

How to use the “Pick List”

The “Pick List” will ask you to answer some simple questions about your organization. Different modules will be recommended depending on your responses.

1. Find the “Pick List” in the Framework manual and answer Yes to each question that applies to your NGO.
2. Look at the list of modules (core or expanded) and find the module or modules that match each affirmatively answered question.
3. Gather the applicable modules and remap the framework by highlighting only those that you will need.

This will be your guide for selecting the applicable processes and procedures for implementation. Be sure to include the recommended internal control points as well.



Toolkit core modules



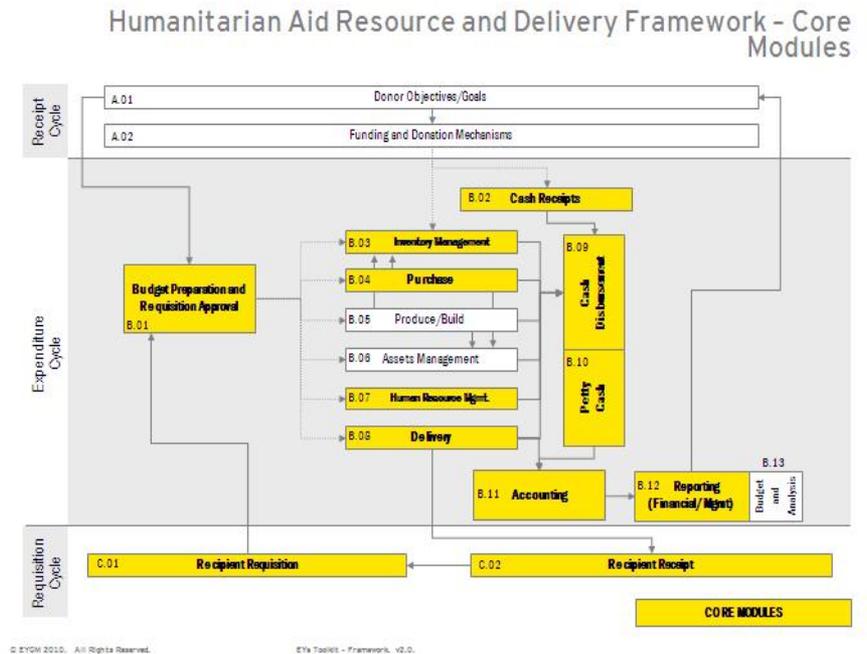
Toolkit core modules

Core modules included in the EYE Toolkit

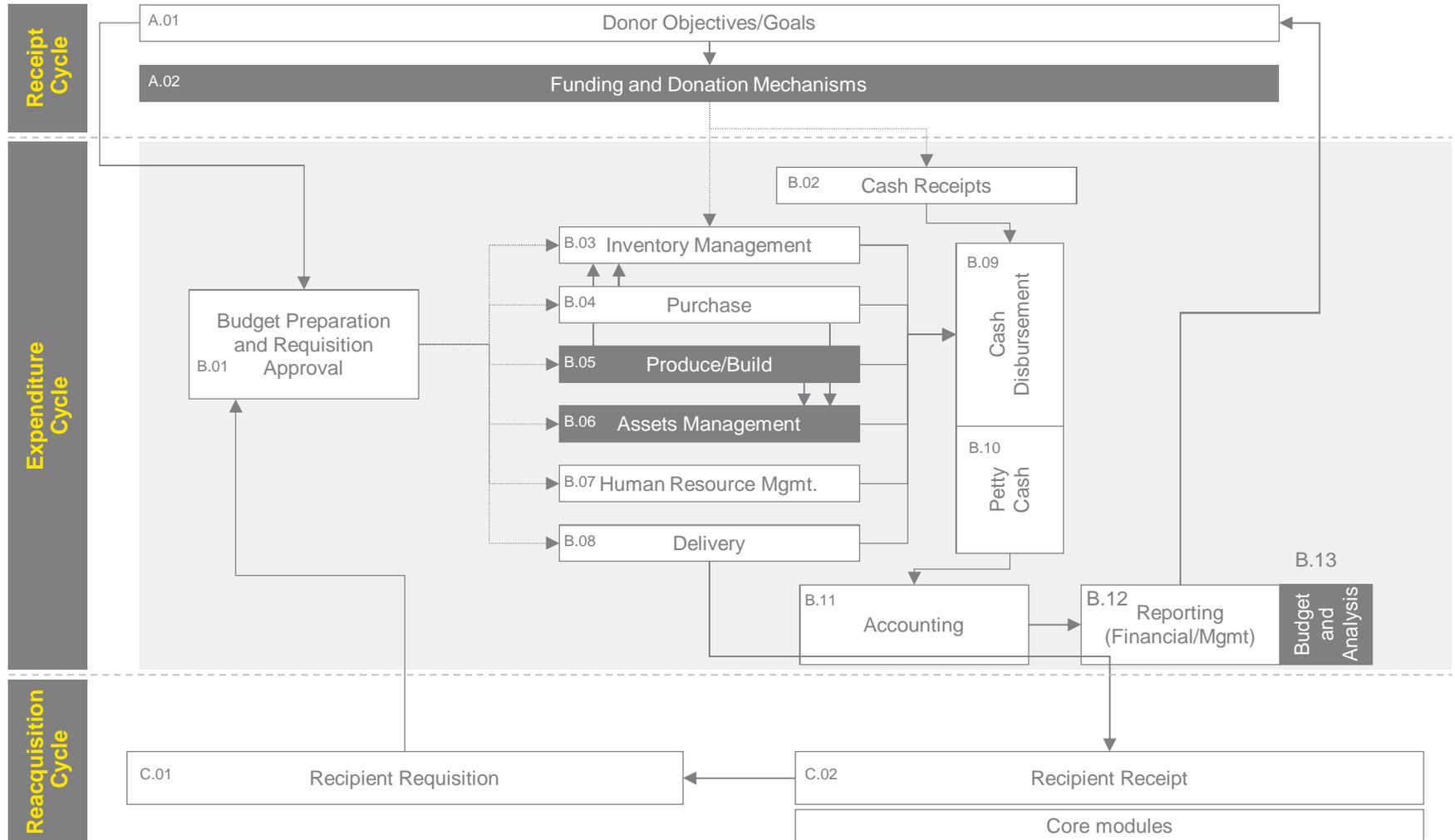
Activities of nearly all charitable organization focus on either raising funds and donations, procuring the goods and services that the recipients need using the donated resources and then delivering those goods and services to the intended recipients.

Assuming that funding is already available, most transactions of financial significance would fall within the expenditure cycle of the toolkit. Therefore, the core modules of this toolkit (listed below) focus on these activities most common amongst charitable organizations:

- ▶ Cash receipts
- ▶ Inventory management
- ▶ Purchase
- ▶ Human resource management
- ▶ Delivery
- ▶ Cash disbursement
- ▶ Petty cash
- ▶ Accounting
- ▶ Reporting
- ▶ Budget preparation and requisition approval
- ▶ Recipient requisition
- ▶ Recipient receipt



Humanitarian Aid Resource and Delivery Framework — core modules

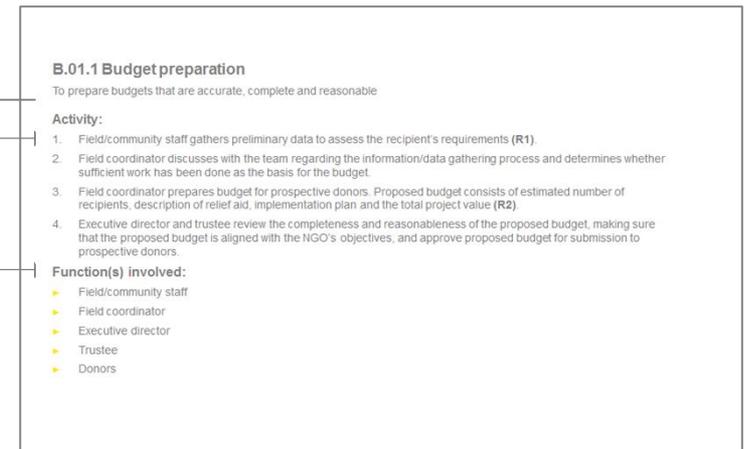
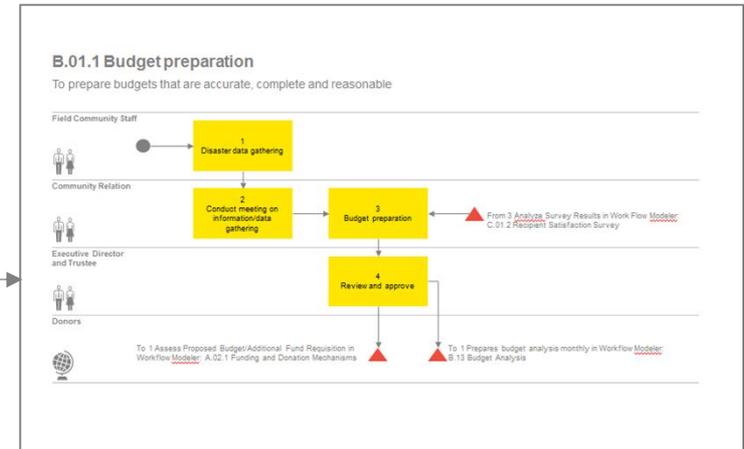


Core modules

What's included in each module?

For each module, the guide contains:

- ▶ A process flow that depicts the process initiation, process activities, roles responsible, process termination and links to other processes
- ▶ Goal of the process
- ▶ Definition and description of each activity, including control applications, relevant prevent and detect controls, and the functions involved



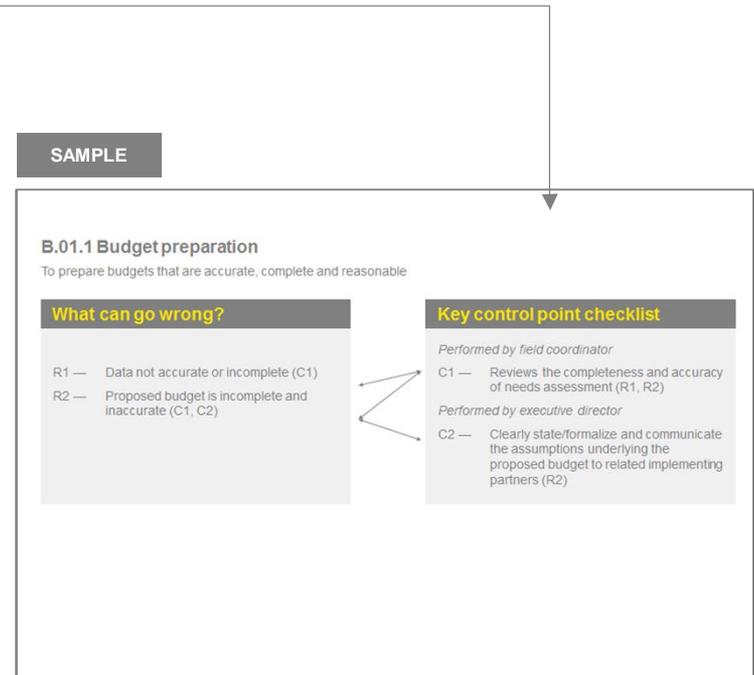
Core modules

What's included in each module?

For each module, the guide contains:

- ▶ A checklist of prevent and detect controls for easy evaluation of the workings of your internal control system
- ▶ A “what can go wrong” list or “watch” guide for use by a donor, finance department, internal/external auditor or any person responsible for closer monitoring and subsequent testing of internal control compliance, including quality of performance

Note: use of automated systems will depend on the size of the organization and the volume of transactions. However, a basic computerized accounting system is preferable because of the additional controls and the reporting capabilities that it would provide.

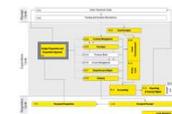


Budget preparation and requisition approval

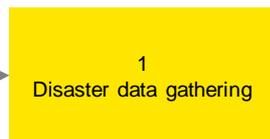
B.01.1 Budget preparation

To ensure budgets are accurate, complete and reasonable

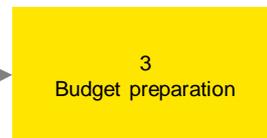
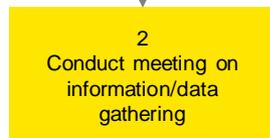
SAMPLE



Field Community Staff

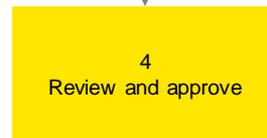


Community Relation



From 3 Analyze Survey Results in Work Flow Modeler:
C.01.2 Recipient Satisfaction Survey

Executive Director and Trustee



Donors



To 1 Assess Proposed Budget/Additional Fund Requisition in
Workflow Modeler: A.02.1 Funding and Donation Mechanisms



To 1 Prepares budget analysis monthly in Workflow Modeler:
B.13 Budget Analysis

Budget preparation and requisition approval

B.01.1 Budget preparation

To ensure budgets are accurate, complete and reasonable

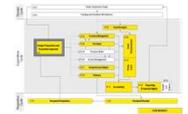
Activity:

1. Field/community staff gathers preliminary data to assess the recipient's requirements (R1).
2. Field coordinator discusses with the team regarding the information/data gathering process and determines whether sufficient work has been done as the basis for the budget.
3. Field coordinator prepares budget for prospective donors. Proposed budget consists of estimated number of recipients, description of relief aid, implementation plan and the total project value (R2).
4. Executive director and trustee review the completeness and reasonableness of the proposed budget, ensure the proposed budget is aligned with the NGO's objectives and approve proposed budget for submission to prospective donors.

Function(s) involved:

- ▶ Field/community staff
- ▶ Field coordinator
- ▶ Executive director
- ▶ Trustee
- ▶ Donors

SAMPLE

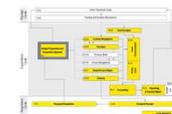


Budget preparation and requisition approval

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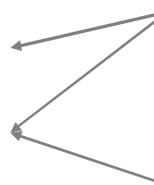
To ensure budgets are accurate, complete and reasonable

SAMPLE



What can go wrong?

- R1 — Data not accurate or incomplete (C1)
- R2 — Proposed budget is incomplete and inaccurate (C1, C2)



Key control point checklist

Performed by field coordinator

- C1 — Reviews the completeness and accuracy of needs assessment (R1, R2)

Performed by executive director

- C2 — Clearly state/formalize and communicate the assumptions underlying the proposed budget to related implementing partners (R2)

Expanded modules



Expanded modules

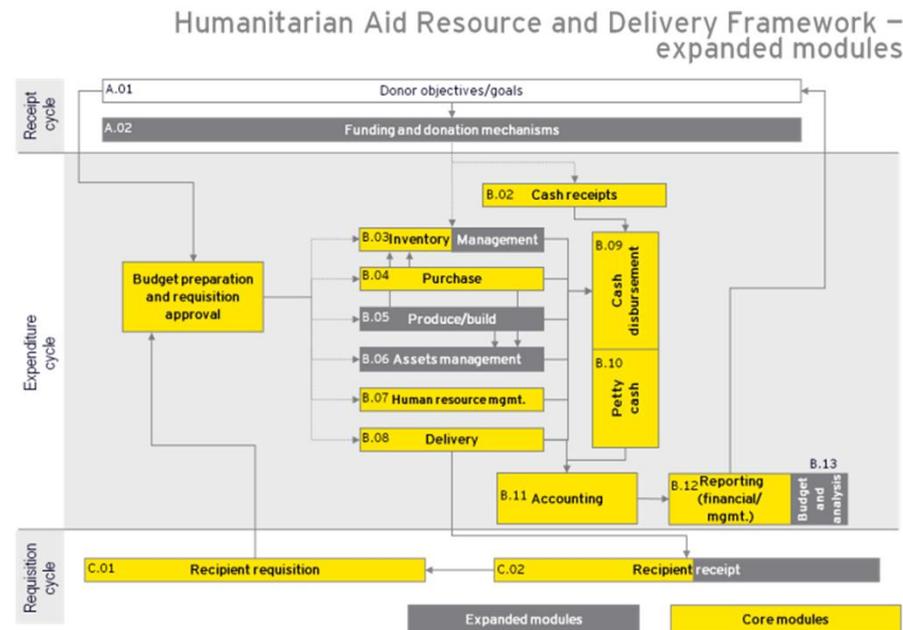
Expand modules

Activities of nearly all charitable organization focus on either raising funds and donations, procuring the goods and services that the recipients need using the donated resources and then delivering those goods and services to the intended recipients.

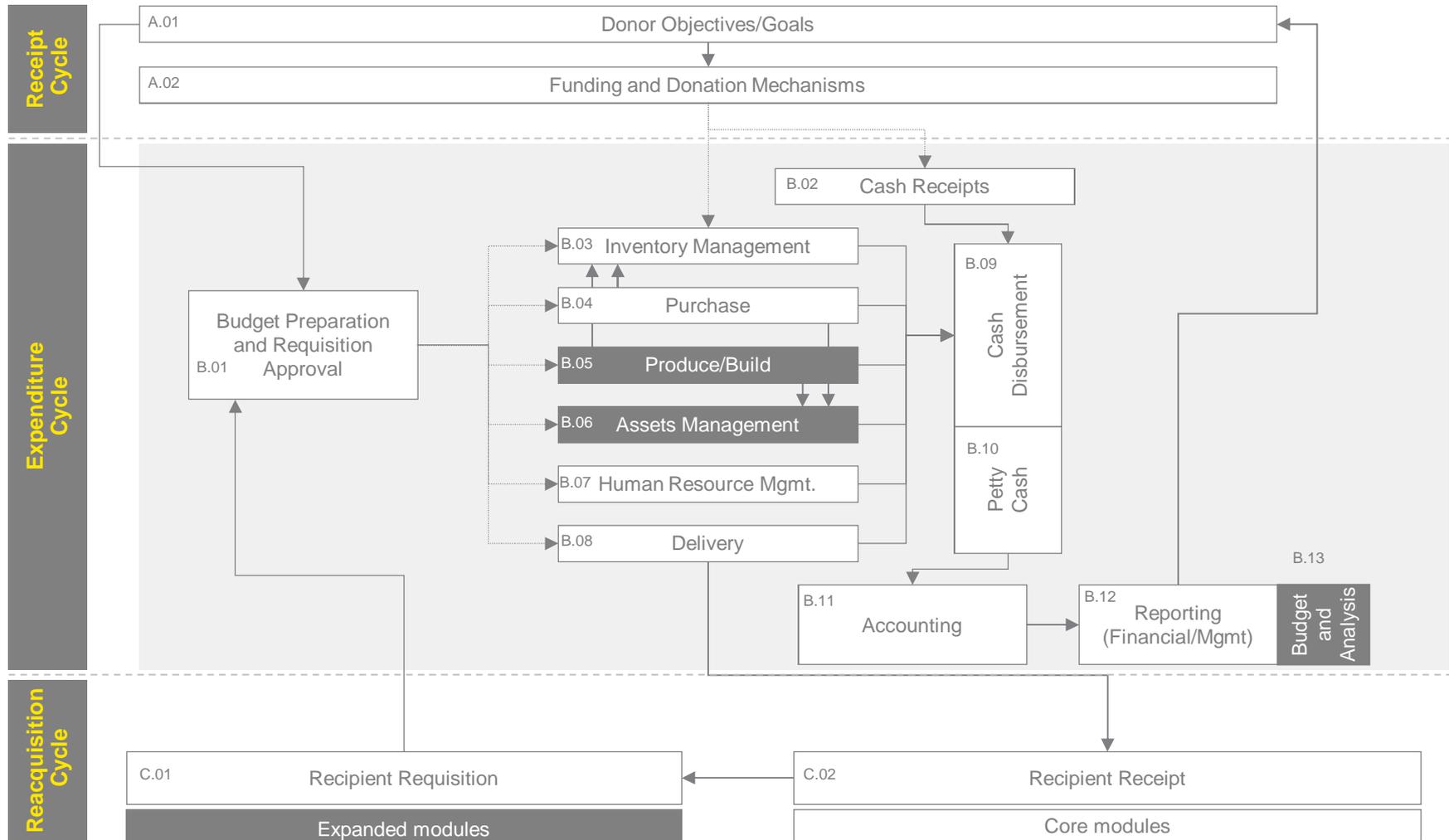
The expanded modules not only include the funding and donating mechanisms, but also focus on activities that may not be common across all charitable organizations:

- ▶ Funding mechanism
- ▶ Inventory management
- ▶ Produce/build
- ▶ Asset management
- ▶ Budget and analysis
- ▶ Recipient receipt

In addition, some other processes have been added to the core modules to help NGOs manage more specific situations.



Humanitarian Aid Resource and Delivery Framework — core modules



Glossary of terms



Glossary of terms

- ▶ **Account.** A record of historical transactions, either written into a book designed for the purpose or entered onto a computer file.
- ▶ **Accruals.** Outstanding expenses for an accounting period that have not yet been paid or invoiced.
- ▶ **Authorization.** The process of approval over transactions, normally the decision to purchase or commit expenditure. Authorization may be done by way of confirming that spending is in line with budget and is appropriate.
- ▶ **Budget.** An amount of money that an organization plans to raise and spend for a set purpose over a given period of time.
- ▶ **COSO.** Committee of Sponsoring Organizations of the Treadway Commission. COSO developed a guiding framework that defines internal control and describes the application of internal control in a corporate environment. It has become the globally accepted benchmark against which to evaluate the adequacy of internal control systems.
- ▶ **Database.** A computerized data storage system that has an advantage over a manual filing system by enabling users to easily present, reformat and analyze information according to different user preferences.
- ▶ **Detective controls.** Controls that are meant to detect or correct errors that may have occurred during the processing of the transactions.
- ▶ **Donation in-kind.** Where a grant or contribution to a project is made in the form of goods or services rather than a cash grant or donation.
- ▶ **Fixed assets.** Items (such as equipment, vehicles or buildings) owned by an organization that retain a significant part of their monetary value for more than one year.
- ▶ **Inherent risks.** Risks that are intrinsic to the organization, based on its particular activities and other characteristics.

Glossary of terms

- ▶ **Internal control.** COSO defines internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories: 1) effectiveness and efficiency of operation; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations.”
- ▶ **Inventory.** Goods purchased (often in large volume) for the purpose of aid relief that are held in temporary storage in a warehouse and require safekeeping until they are ready to be distributed to recipients.
- ▶ **NGO.** Non-government organization, a generic term used to refer to organizations that are established for charitable activities and other non-profit purposes. While they may receive government funding (as well as donations from private sources), they do not operate as an instrument of government policy.
- ▶ **Petty cash imprest.** A type of cash float, set at an agreed level, that is replenished by the exact amount spent since it was last reimbursed to bring it back to its original level.
- ▶ **Preventive controls.** Controls that are meant to prevent errors from occurring during transaction processing.
- ▶ **Reconciliation.** A detect control procedure that verifies the integrity of accounting information through comparison of the balances compiled by two different sources; for example, reconciliation of the bank statement with the general ledger balance for the bank account.

Frequently asked questions



Frequently asked questions

- ▶ **How can *Improving financial controls* help improve the efficiency and effectiveness of how relief goods and services reach the intended recipient intact?**
 - ▶ **Answer** — *Improving financial controls* contains preventive and detective internal controls that improve and identify accountability as the goods or services move from supplier to recipients.
- ▶ **Is the guide foolproof?**
 - ▶ **Answer** — There is no system of controls that is foolproof. People of authority can override the system of internal controls. People can also collude to beat the system of controls.
- ▶ **What is the benefit of adopting the humanitarian aid framework?**
 - ▶ **Answer** — While this guide cannot provide 100% assurance, it can help to provide reasonable levels of assurance that relief assets are safeguarded.
- ▶ **Do I need to attend training to understand the *Improving financial controls*?**
 - ▶ **Answer** — If the user has basic understanding of internal controls, there is no need for training. However, EY advises that a user should attend a training session for better appreciation of the guide's capabilities or seek professional advice when adopting it to a specific situation or organization.
- ▶ **Who can I call for questions that I have?**
 - ▶ **Answer** — EY or any other professional services organization with skills and strengths in implementing and testing internal control systems can be contacted for advice.
- ▶ **What do I need to do first to bring the concepts within this guide to my organization?**
 - ▶ **Answer** — Read this booklet first to get a foundational understanding of what internal controls are, and then complete the Pick List to identify the modules that best fit your organizational and operational structure.

Frequently asked questions

▶ What if I complete the Pick List wrong?

- ▶ **Answer** — You will find that there are transactions that cannot be processed because of a missing module or that you have processed all your transactions but a module has not been used. Either adopt what is missing or remove what is not being used.

▶ What should I do when I learn that relief goods or services are taken by delivery workers for personal use or sale?

- ▶ **Answer** — Gather relevant information and conduct investigation using your finance department, internal auditors or a professional fraud investigator.

▶ What are some of the reports I should require?

- ▶ **Answer** — Statement of receipts, disbursements and fund balance. This should show the required details in accordance with the terms of donation
- ▶ **Answer** — Budget to actual comparison. This would analyze actual receipts and disbursements against budgeted amounts.

▶ What is the guiding principle used for material aid?

- ▶ **Answer** — No material aid should be sent prior to consent by the recipient, and a donation should be made with full respect for the wishes and the authority of the recipient.

▶ What if an NGO doesn't have access to adequate (or any) IT resources?

- ▶ **Answer** — One alternative that can be explored is for several NGOs to set up a shared computerized processing service. The savings created by improved controls and accurate and faster processing could be used to pay for the cost of this common services platform.



Frequently asked questions

▶ What are some things I should consider at the end of a project or program?

- ▶ **Answer** — Although every program and project has an ending date, there are often many things to do after that — analyze results, prepare final reports, close the books and more. It is important to consider these activities in your overall plan and continue the systems of internal control already in place during that post-period.
- ▶ **Answer** — When a program or project ends, the project or its recipients often need something more to ensure the sustainability and success of work just completed that was not included as part of that work. This may include training, the purchase of inventory, money for salaries and start-up expenses, additional equipment, etc. As part of your closing activities, consider helping the recipients prepare appropriate applications for additional support for such requirements.



For more information

Adlai Goldberg

Maagplatz 1

Zurich 8005 Switzerland

P: +41 58 286 44 88

F: +41 58 286 3004

E: adlai.goldberg@ch.ey.com

Thank you



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About EY

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