Business Risk Services

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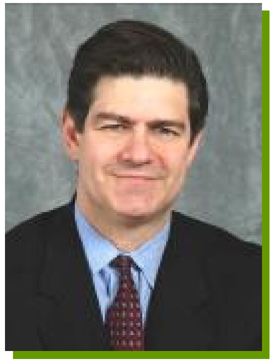
May 2005

EYe Toolkit – Overview v1.0

Building Proper Systems of Control for Humanitarian Aid Resourcing and Delivery

"Helping you keep an eye on things."

Foreword



Since the tsunami struck in December last year, donations of money, goods, and services for emergency relief and rehabilitation efforts have been pouring in from around the world, and these have recently been valued at more than US$9b. There is now considerable pressure from, and on, donors, non-governmental and not-for-profit organizations, local governments, and the impacted communities to ensure that this aid is effectively and efficiently spent as intended. Given the speed at which the response to the tsunami has come together and the enormity of it, a number of organizations may not yet have had the chance to develop or deploy adequate systems of internal control.

As part of Ernst & Young's commitment to supporting the tsunami relief effort and to helping provide transparency and accountability in these very important humanitarian missions, we have developed the EYe Toolkit as a resource to help providers establish adequate systems of accountability and internal control within their organizations.

While the tsunami relief effort has prompted the call for such guidance, I sincerely hope that relief organizations dealing with humanitarian aid efforts beyond this disaster will also be able to benefit from the information that we have provided here.

If you have any questions regarding the materials in the toolkit or about systems of internal control and accountability in general, please do not hesitate to contact any of the people listed in this document.

The relief efforts that you are involved in are truly significant and I hope that you find the EYe Toolkit of value as you continue your great work.

Sincerely,

James S. Turley
Chairman and CEO

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For reference only.

- Please note that the information contained in this document is for reference only. The information contained in this document has been prepared solely for the purpose of providing information to interested parties about establishing proper systems of accountability and internal control within their organizations.
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In the accompanying EYe Toolkit – Framework booklet:

- Core Module Details
- Expanded Model Details
- “Pick List”

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INTRODUCTION

“Helping you keep an eye on things.”

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Introduction

TSUNAMI: A CALL TO ACTION …

In the early hours of Sunday 26 December 2004, a massive earthquake measuring 9.0-on the Richter scale struck the West Coast of the northern Indonesian Island of Sumatra. The quake triggered powerful tsunamis reaching ten meters in height and wrecking coastal areas in Indonesia, Sri Lanka, Thailand, India and Maldives, as well as in Myanmar, Seychelles and Somalia.

Within hours of the catastrophic events, charitable organizations mobilized relief programs through local churches, mosques and Buddhist temples, bringing immediate relief to people in need.

During the first few months after the tsunami, the focus was on providing emergency relief. Currently, reconstruction and rehabilitation is underway and it is expected to continue for the next three to five years.

… MORE THAN ANYONE COULD IMAGINE.

No one could have imagined the amount of emergency and rehabilitation work that would be required from such a natural disaster.

No one could have imagined the amount of support that the world would marshal in response to an emergency of this scale.

As of March 15, 2005, it is estimated that over US$7 Billion has been raised or pledged for aid and reconstruction efforts.

Given the sheer enormity and cost of the reconstruction and rehabilitation over the next three to five years, it is understandable that the organizational infrastructure and capacity to deliver what's required to the affected areas needs to be improved – from service delivery to accountability.

INDONESIA
Affected the provinces of Aceh and North Sumatra. The extent of the damage and loss of life remains unclear but most expect the death toll will exceed 100,000. It is estimated as many as 2,000,000 people are in need and some 1,000,000 people require immediate assistance

SRI LANKA / MALDIVES
Affected 13 of the islands 22 districts which left with more than 40,000 dead and staggering 2.5 million people displaced. Although 1,600km from the epicenter, the waves struck with huge force and swept inland as far as 5 kilometers.

INDIA
Affected six states in Eastern and South Coastal India, killing almost 7,000 people in India alone and leaving tens of thousands homeless. Tamil Nadu lost approximately 2,500 people while the fate of 45,000 people around Nicobar remains uncertain.

THAILAND
Affected not only the Andaman coastal area of Thailand, but also the communities in those areas – lives, property as well as the livelihood of survivors were lost. More than 5,000 people perished, some 8,500 people injured, and over 3,000 people are still missing.

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Introduction

WHAT IS EXPECTED BY … THE DONORS? THOSE AFFECTED? STAKEHOLDERS AT LARGE?

Funds allocated to tsunami relief and rehabilitation efforts (or any other relief effort) are effectively and efficiently spent in accordance with:

1) What the affected people need, and
2) The objectives set by the donors.

Funds not be unintentionally diverted 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.

ERNST & YOUNG – CALL TO ACTION

Ernst & Young, along with almost every other organization in the world, struggled with the question of how to best support the relief and rehabilitation in tsunami 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 a non-governmental organization (NGO) or not-for profit organization to provide reasonable assurance that the funds allocated to tsunami efforts are effectively and efficiently spent.

THE EYe TOOLKIT

The EYe Toolkit provides process maps, controls and flows for humanitarian aid resourcing and delivery – from fund allocation, to aid distribution as well as 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 THE EYe TOOLKIT FOR?
HOW DOES IT FIT YOUR NGO?

"Helping you keep an eye on things."

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Who Is The EYe Toolkit 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 who are 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 tsunami-affected countries, the extent of the devastation is on a scale that most NGOs are not typically 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. NGOs providing tsunami relief are currently struggling with a wide range of problems and face important decisions over the proper allocation of money involved in the reconstruction effort. Many NGOs do not have the resources, capacity or systems of control to meet the expectations placed upon them.

To meet the challenging circumstances such as those described above, NGOs need the flexibility and freedom to decide what the best way is to achieve their charitable aims and, at the same time, meet the overarching objective of ensuring that the funds available for charitable purposes translates into maximum benefit for the intended recipients.

Maintaining the trust that it has been given requires that an NGO demonstrate all of its assets are only being used to meet its stated objectives. Donors need assurance that their money is being efficiently and effectively used to assist affected people or whatever its intended purpose is. Accountability and transparency are essential to maintain the confidence of donors. This can only be achieved if adequate procedures and controls are in place.

The EYe Toolkit, as described in the following sections, highlights discusses 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 The EYe Toolkit For? How Does It Fit Your NGO?

WHAT IS THE TOOLKIT?

EY has developed the EYe Toolkit, documenting 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.

The EYe Toolkit begins with EY’s Humanitarian Aid Resource and Delivery Framework, which depicts the aid resource and delivery the three cycles:

- Receipt - establishing agreements between donor(s) and the NGO;
- Expenditure – procuring, delivering, disbursing accounting and reporting of aid delivery; and
- Requisition – telling the donors what and how much they need as well as acknowledging receipt of aid given.

Within each of the three cycles, the EYe Toolkit 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 or not.

It is expected that an NGO will adopt the process modules that are relevant to their operations, starting with the core modules common amongst 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.

By doing so, the EYe Toolkit will help an NGO to overcome one of its key challenges of aligning the needs of their recipients with the ongoing purchase, delivery and receipt of aid. The EYe Toolkit will also help to establish levels of accountability and transparency intended to satisfy donor objectives.

Who Is The EYe Toolkit For? How Does It Fit Your NGO?

WHO IS THE TOOLKIT FOR?

The EYe Toolkit is primarily intended for use by the following organizations:

- NGOs that are planning to establish themselves in or beyond tsunami affected countries (or have been recently established) and who would like to adopt a system of internal controls that will help to ensure 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 the 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?

The EYe Toolkit 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, and
- 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", the EYe Toolkit can be adopted to meet varying levels of sophistication and control requirements.

STRUCTURES AND LEVELS OF CONTROL WITHIN AN NGO

"Helping you keep an eye on things."

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Structure & Levels of Controls Within An NGO

WHY DO DONORS OR NGOs NEED TO PUT INTERNAL CONTROLS IN PLACE?

Internal controls are defined as a process 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. Since 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, asset are not limited to goods and services but are 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.

Structure & Levels of Controls Within An NGO

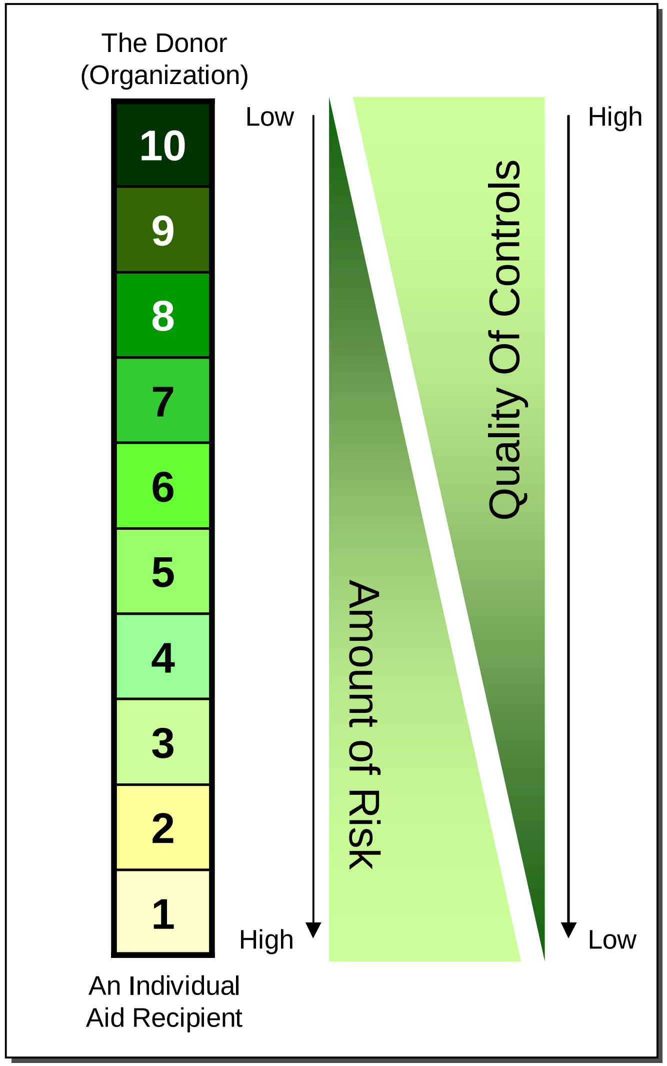
HOW MUCH 'CONTROL' DOES AN NGO NEED?

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 whom 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?" 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/loss an NGO is willing to accept before deciding to what depth controls should be applied.



Structure & Levels of Controls Within An NGO

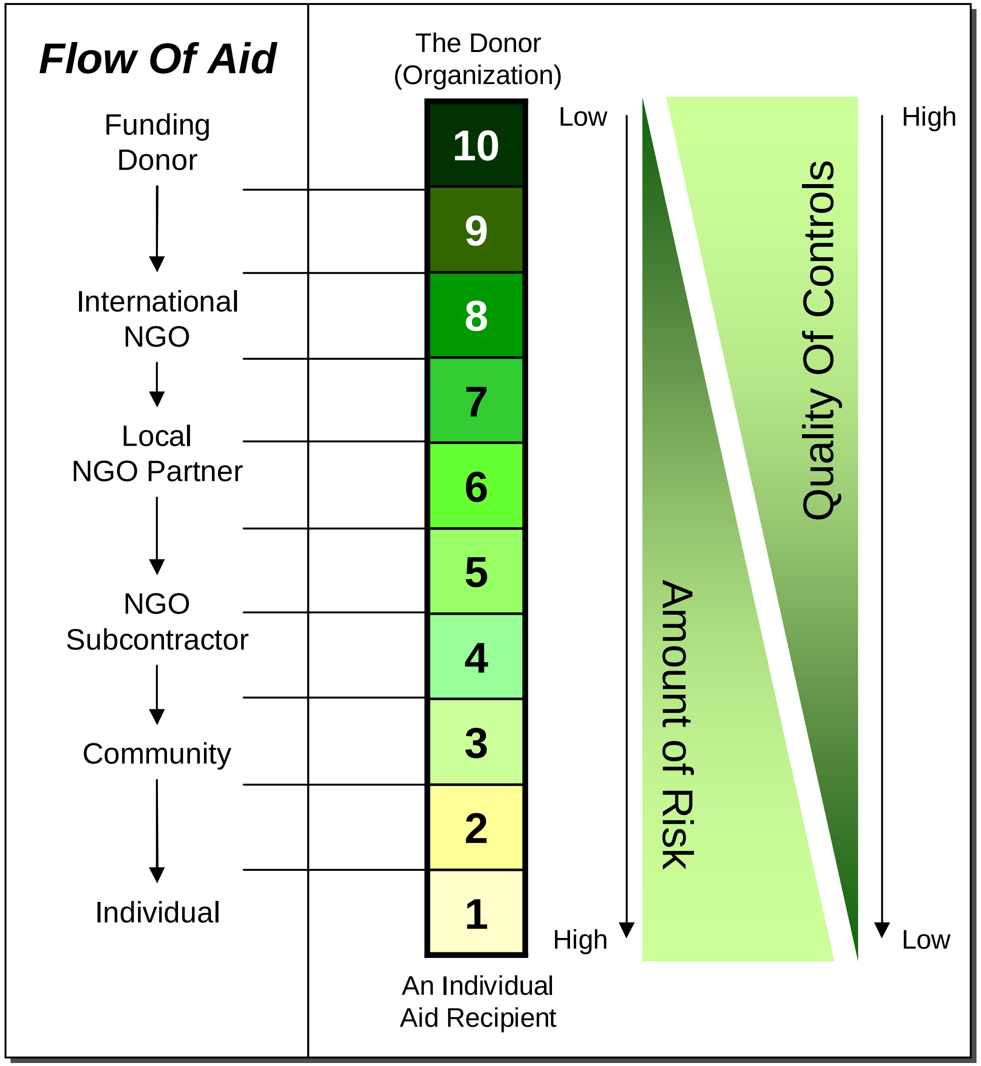
HOW MUCH 'CONTROL' DOES AN NGO NEED? – AN EXAMPLE

The amount funded by the funding donor should equal the sum 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/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 not only determine how effective their programs are but also allows them to detect (and correct) leakages.



Structure & Levels of Controls Within An NGO

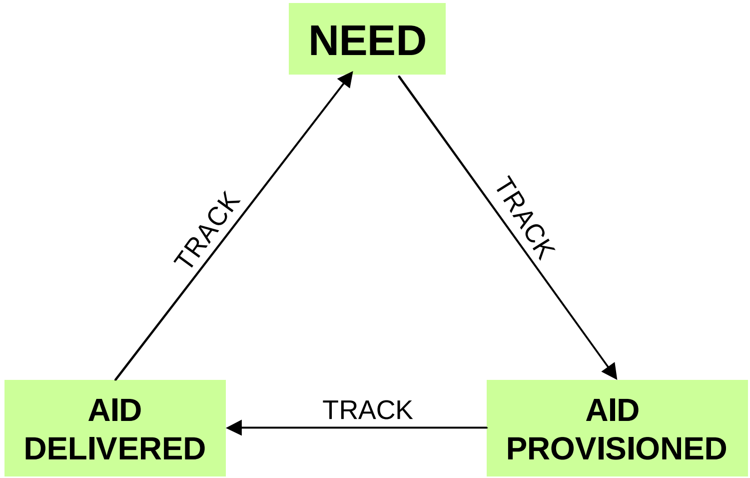
WHERE DOES CONTROL BEGIN?

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's 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 allow 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 but also helps them to improve the effectiveness and efficiency by which donations are converted to aid.

Lack of assurance as to the effective delivery of charitable endeavors (e.g. not all spent 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

Structure & 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 by 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, a construction company was awarded a contract for the construction of temporary homes.

The company wanted to rebuild these homes nearby or in the fishing villages that had been destroyed. But, ownership of the land hadn't been established and therefore 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?

Structure & Levels of Controls Within An NGO

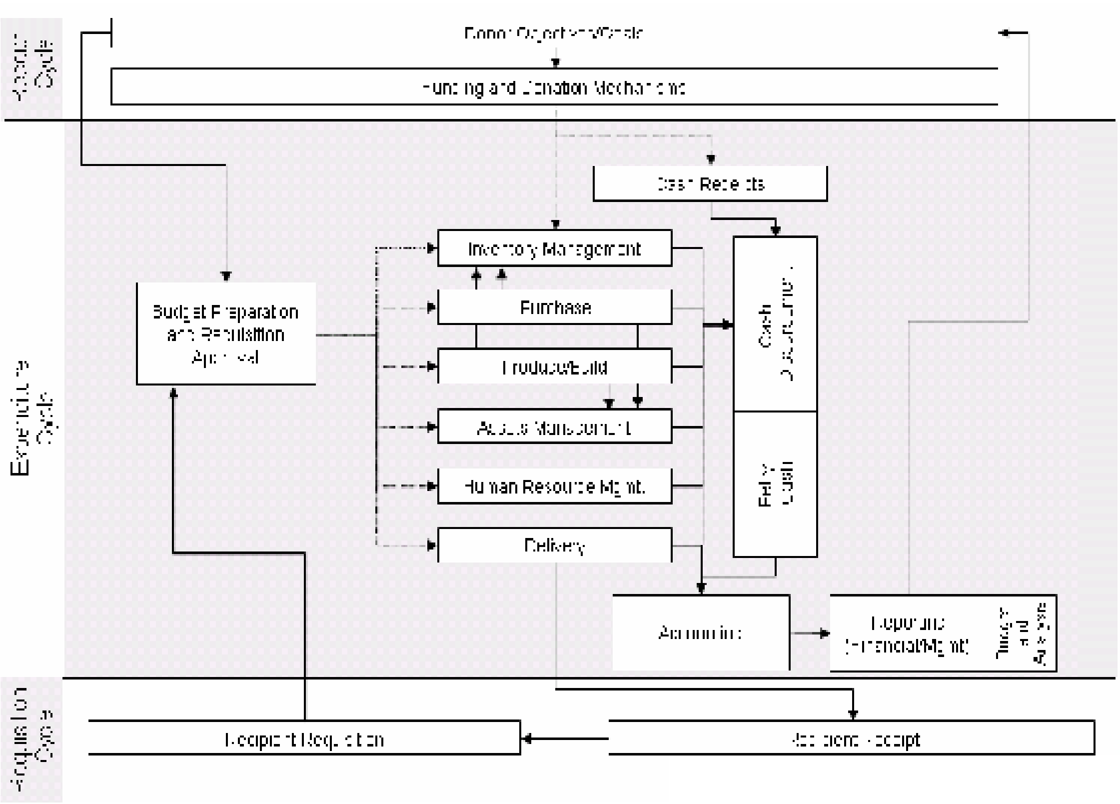
CONTROLS AND THE HUMANITARIAN AID RESOURCE AND DELIVERY FRAMEWORK

Ernst & Young'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.

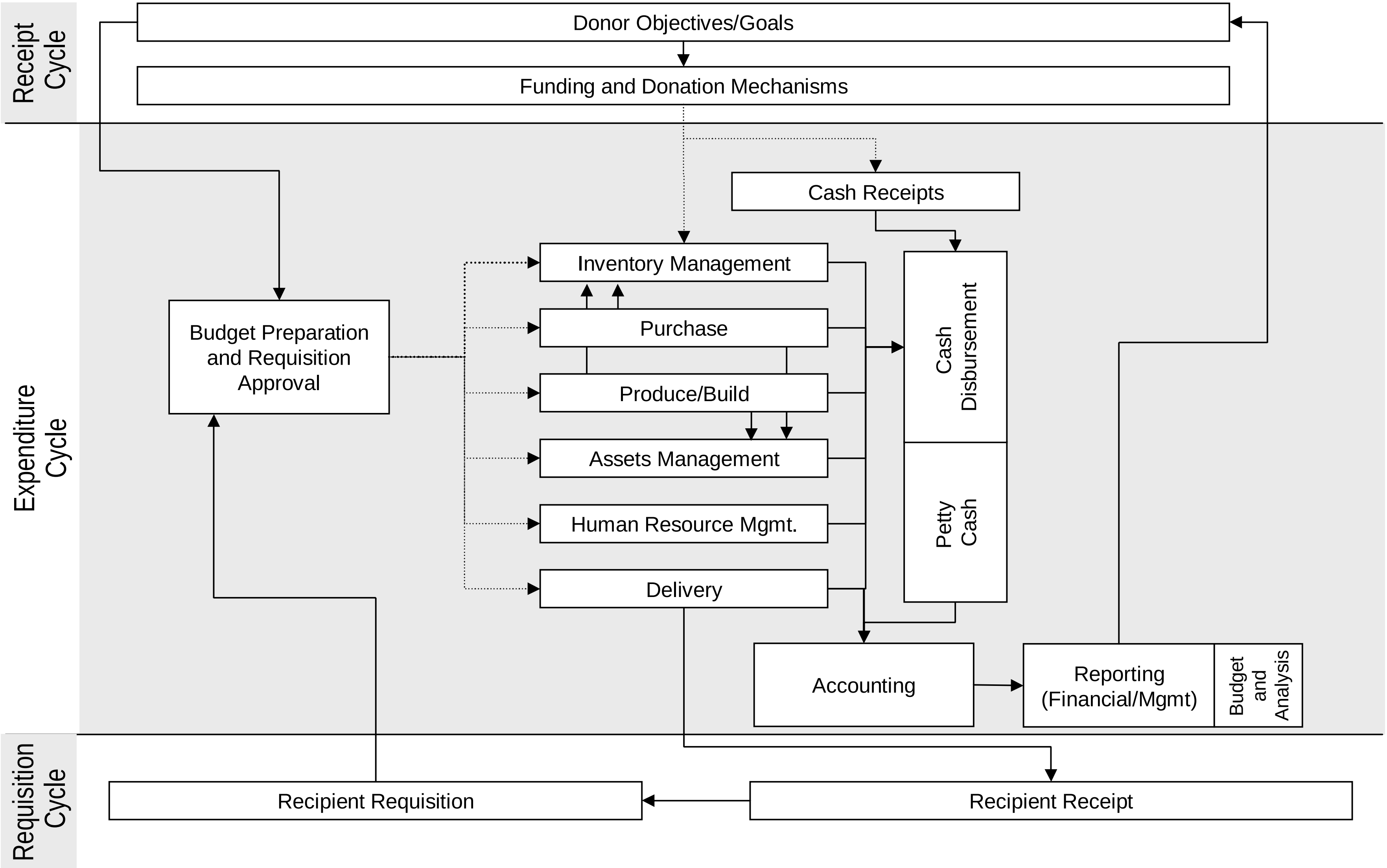
Receipt Cycle. Establishing agreements between donor(s) and the NGO. Collecting donations in accordance with objectives and agreements.

Expenditure Cycle. Procuring, delivering, disbursing, accounting and reporting of aid delivery. This would also include 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.



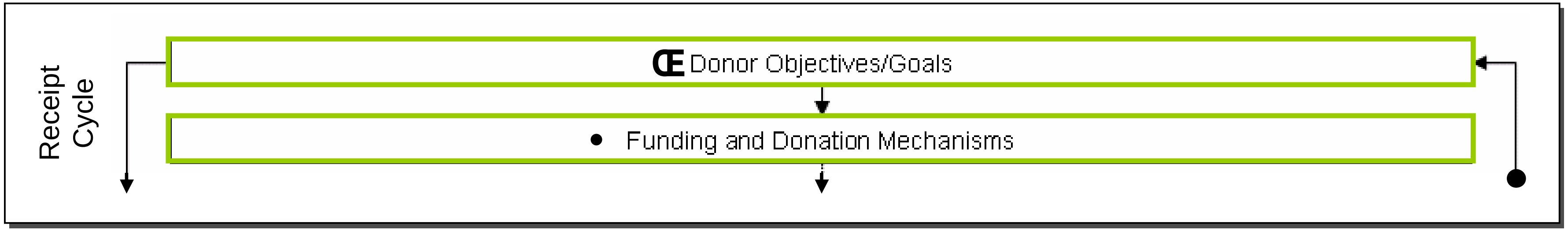
Humanitarian Aid Resource and Delivery Framework



Structure & 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.



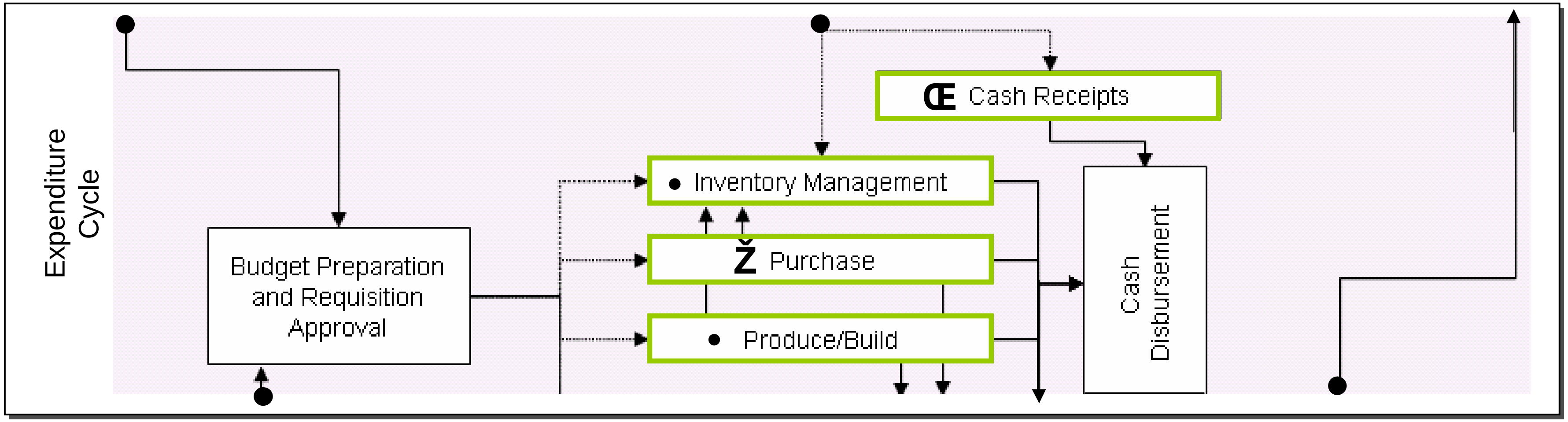
Œ Donor Objectives/Goals
Establishing and maintaining humanitarian guidelines that include proactively determining what recipient needs actually are and ensuring that those determined needs are responded to appropriately.

• Funding and Donation Mechanisms
Requesting or receiving monies, goods or services from Donors - through fundraising, donations, grants, sponsorships, collections, or other activities.

Structure & 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. This would also include human capital, services and other resources used in the delivery of aid.



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

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

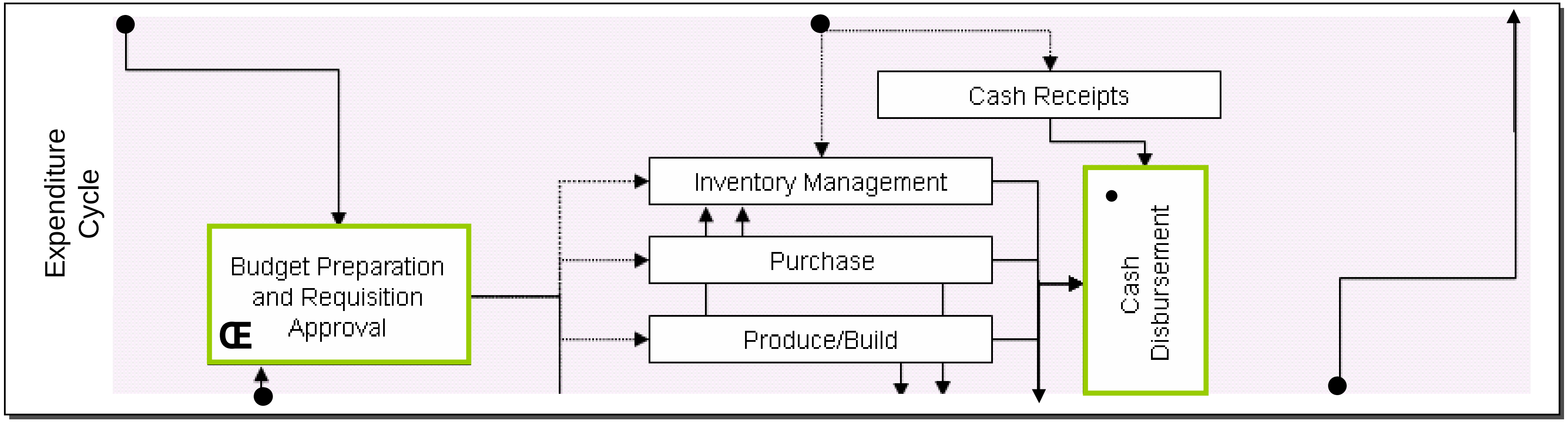
- **Inventory Management**
  Managing goods / services from the point they are received, warehoused through to distribution to the Recipients.

- **Produce/Build**
  Producing / building goods, facilities or services based on the Recipients' needs.

Structure & 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. This would also include human capital, services and other resources used in the delivery of aid.



Œ **Budget Preparation and Requisition Approval**
Assessing proposed budget (new or additional) against the Recipients’ criteria and Donor’s goals objective / goals. Managing receipt information, matching it with approved requisitions and analyzing variances.

- **Cash Disbursement**
  Payment by check or bank transfer to suppliers, for employee payroll and petty cash replenishment.

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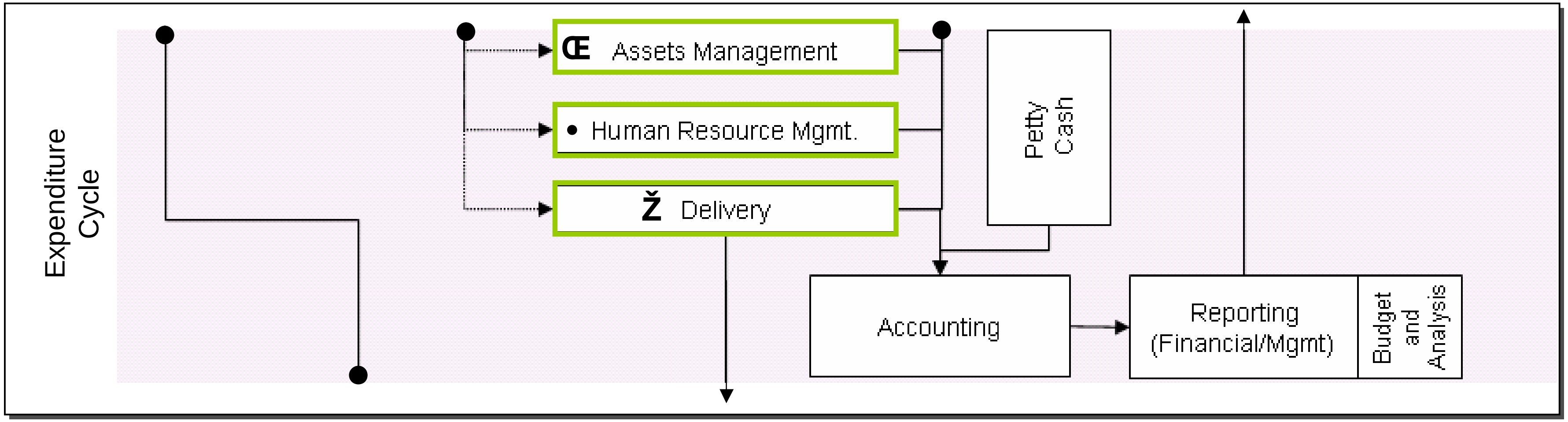
Structure & Levels of Controls Within An NGO

EXPENDITURE CYCLE COMPONENTS – THE HUMANITARIAN AID RESOURCE AND DELIVERY FRAMEWORK

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



Œ **Asset Management**
Managing the life-cycle of a fixed asset from purchase, to transfer, maintenance and finally disposal.

• **Human Resource Management**
Administering human resources from recruitment and promotion, to resignation or termination. Calculating payroll amounts based on employee attendance.

Ž **Delivery**
Loading, transporting and un-loading of materials and goods.

Structure & Levels of Controls Within An NGO

EXPENDITURE CYCLE COMPONENTS – THE HUMANITARIAN AID RESOURCE AND DELIVERY FRAMEWORK

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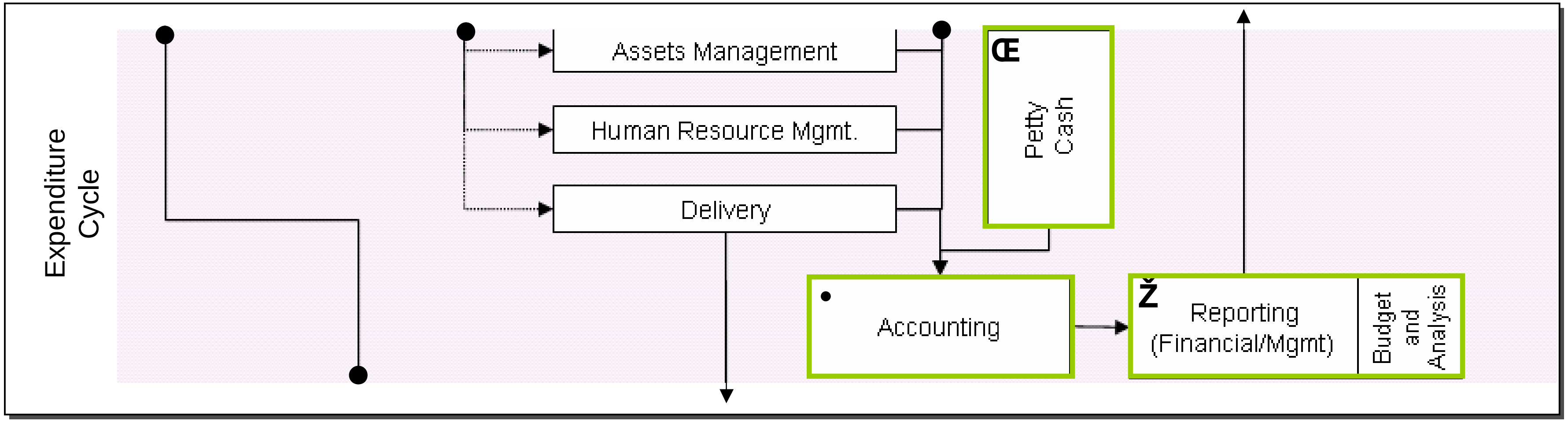


Œ Petty Cash
Managing petty cash – requests, issuance and replenishment.

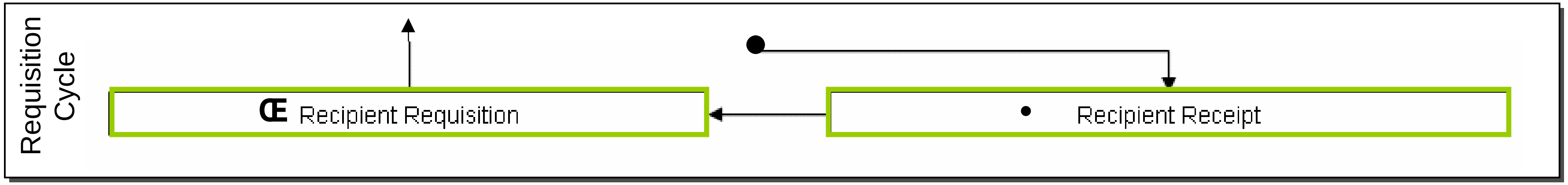
- **Accounting**
  Recording, valuing, classifying, summarizing and posting daily transactions.

Ž Reporting (Financial/Mgmt)
Preparing financial statements, analyzing financial information as well as monitoring operational performance and reporting on it.

Structure & 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.



Œ **Recipient Requisition**
Requesting goods / services by the recipients

• **Recipient Receipt**
Distributing goods / services to the Recipients and collecting evidence (receipts) that they have been received.

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Structure & Levels of Controls Within An NGO

TRACING THE FIRST TIME PROVISIONING OF RELIEF GOODS AND SERVICES

Œ Based on its mission, Donor establishes perceived recipient needs.

- Monies, goods, or services are collected from funding mechanisms (i.e. from other donors, fundraising, etc.)

Ž Monies, goods or services collected are made available for aid work through a deposit into a bank account or into an inventory management system.

- Goods, facilities or services are purchased, produced or built according to the mission and perceived needs of the recipients.
- Goods or services are distributed through aid delivery channels.

‘ Goods or services are received and acknowledged by the recipient.

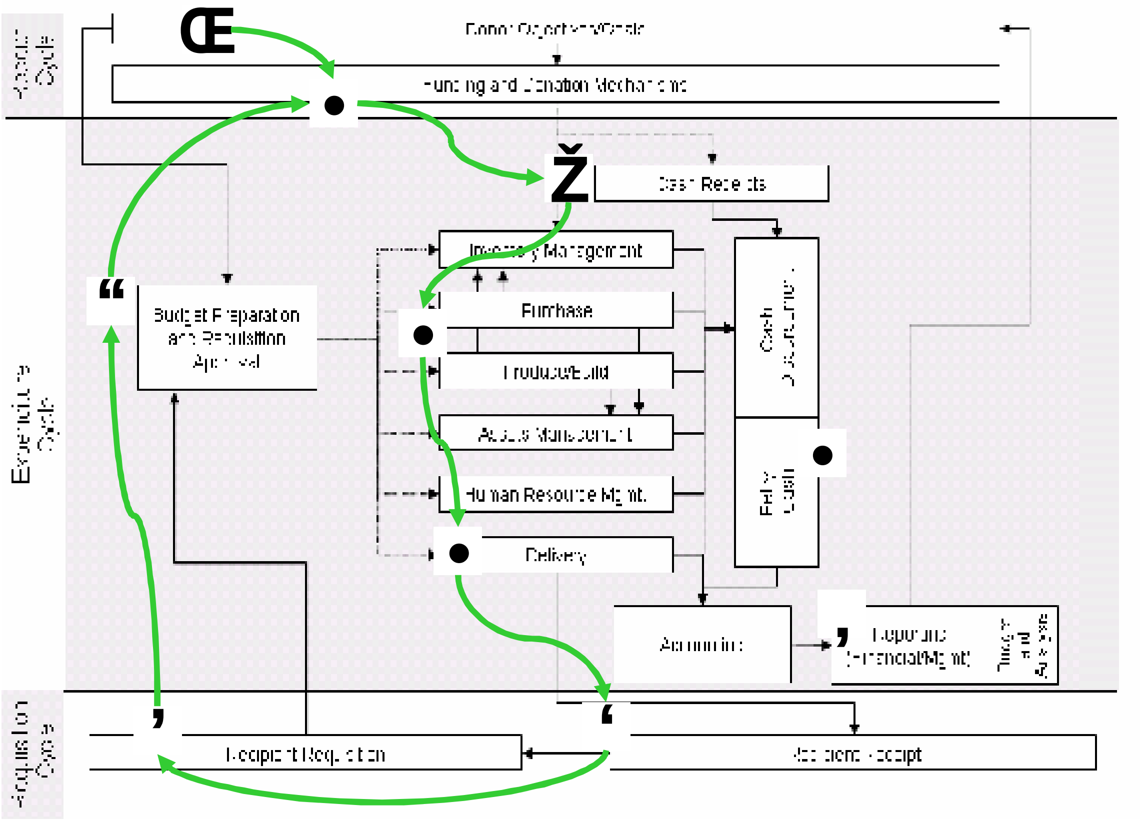
’ Based on better understanding of recipient needs, requisition for additional aid is made.

“ Requisition for additional aid is approved by matching requisitions and receipts along with donor mission and objectives.

Periodically:

- Payments are made for goods, facilities or services purchased, produced or built.

‚ Amounts used and amounts paid are recorded. Periodic reports are produced that account for activities conducted and aid received.



Quality In Everything We Do

Structure & Levels of Controls Within An NGO

TRACING THE ON-GOING PROVISIONING OF RELIEF GOODS AND SERVICES

Œ Based on better understanding of recipient needs, requisition for additional aid is made.

• Requisition for additional aid is approved by matching requisitions and receipts along with donor mission and objectives.

Ž Goods, facilities or services are purchased, produced or built according to the mission and perceived needs of the recipients.

• Goods or services are distributed through aid delivery channels.

• Goods or services are received and acknowledged by the recipient.

Periodically:

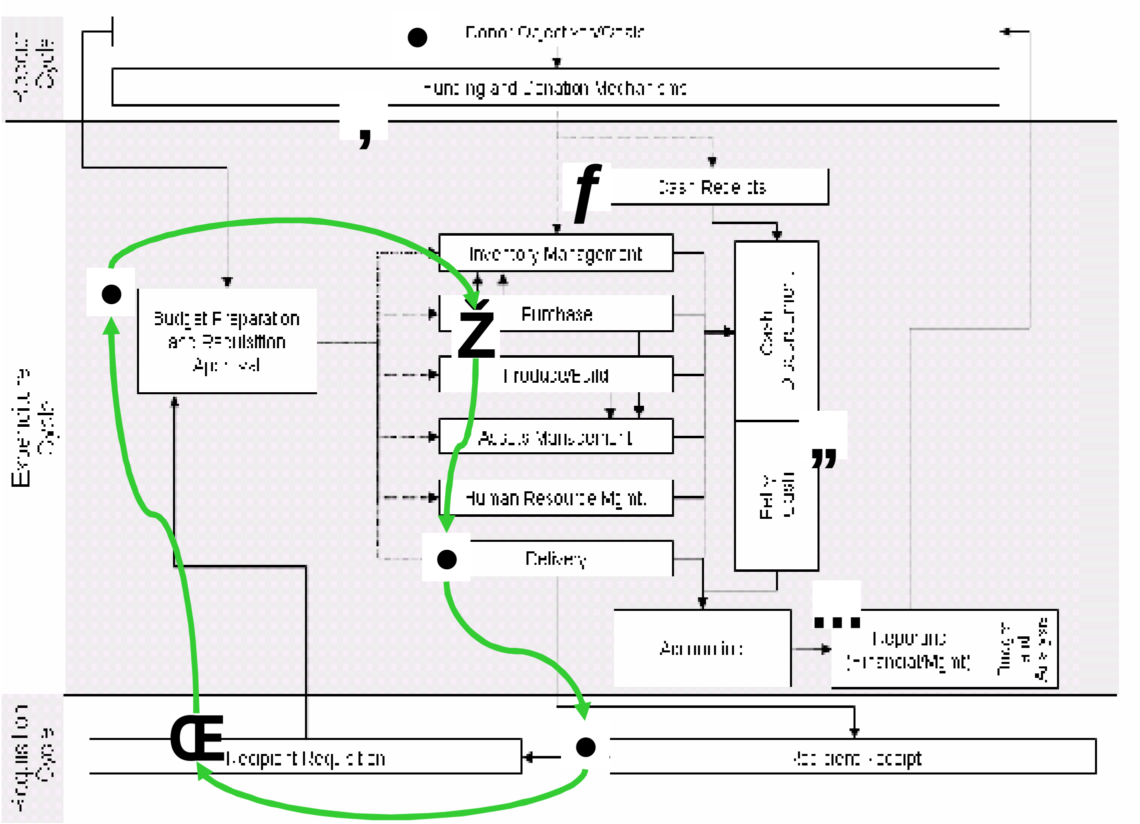
• Based on its mission, Donor establishes perceived recipient needs.

‚ Monies, goods or services are collected from funding mechanisms (i.e. from other donors, fundraising, etc.)

ƒ Monies, goods or services collected are made available for aid work through a deposit into a bank account or into an inventory management system.

„ Payments are made for goods, facilities or services purchased, produced or built.

… Amounts used and amounts paid are recorded. Periodic reports are produced that account for activities conducted and aid received.



  EYe Toolkit – Overview. v1.0.

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Structure & 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 an "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 focus on developing a reasonable control environment (e.g. code of conduct) and continually assessing the risks they face.

CONTROL ENVIRONMENT:
Attributes of the people conducting the entity's activities and the environment in which they operate

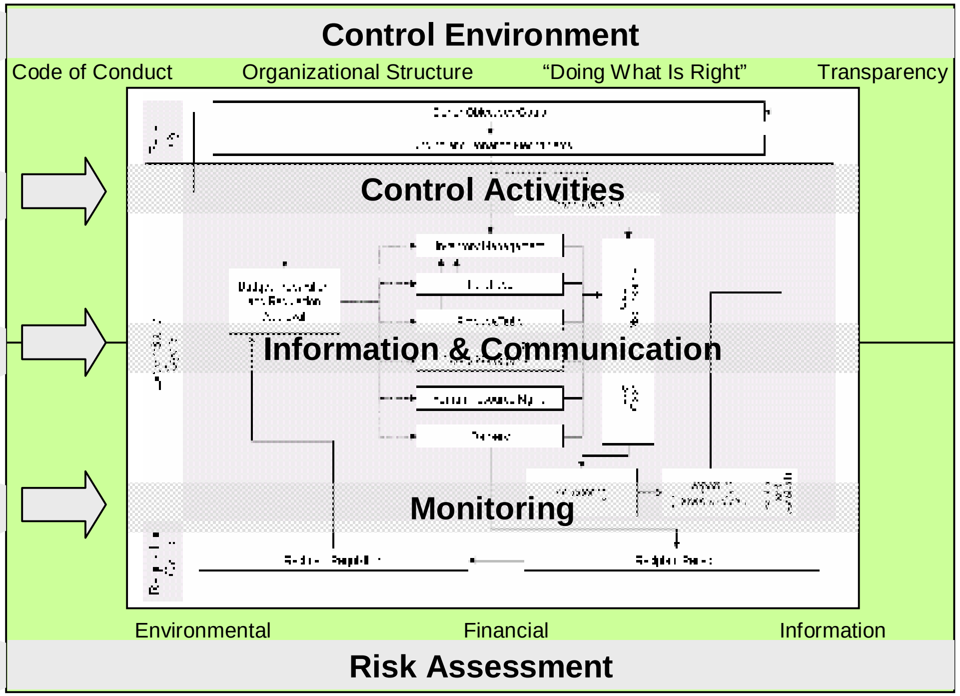
Embedded in Core Business Processes

CONTROL ACTIVITIES:
Policies and procedures established and executed that enable management's directives to be carried out

INFORMATION & COMMUNICATION:
Systems enabling identification, capture & exchange of information for the conduct and control of operations

MONITORING:
Assess performance of internal control over time and making modifications as conditions change

RISK ASSESSMENT:
Establishment of objectives and mechanisms to identify, analyze and manage risks



Structure & 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 is dependent upon building a control environment in which top management continually emphasizes the performance of control procedures. Sub-elements of the control environment include the following:

- 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

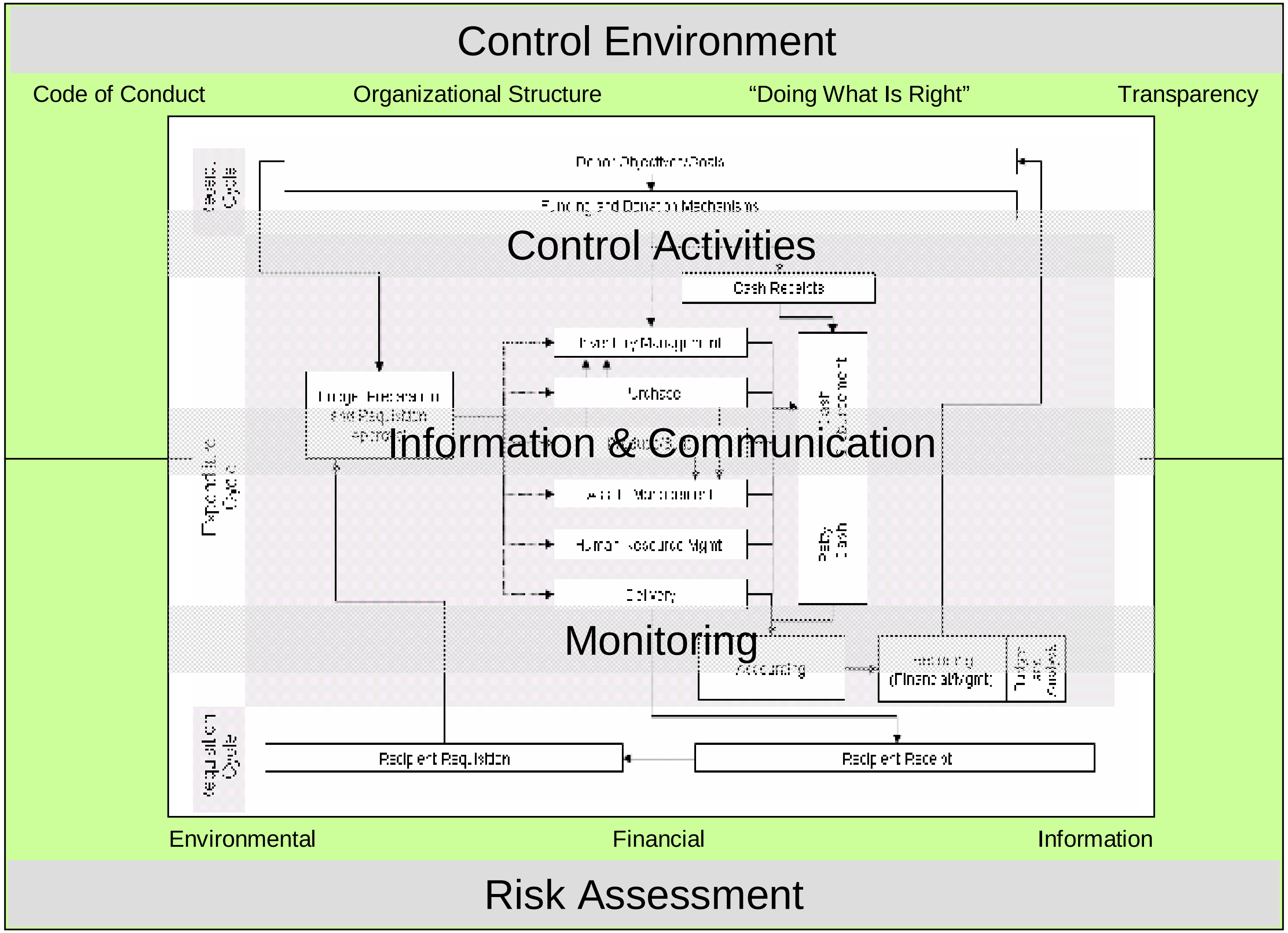
Because operating conditions in which the organization functions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

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 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 FRAMEWORKS



TAILORING THE TOOLKIT FOR YOUR ORGANIZATION

"Helping you keep an eye on things."

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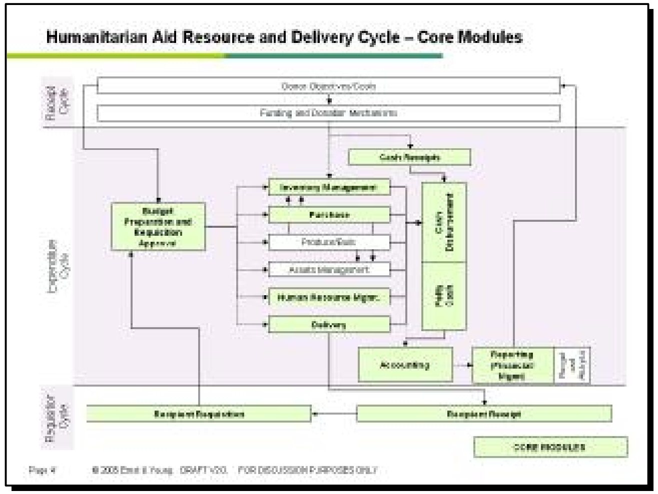
Tailoring The EYe Toolkit For Your Organization

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 amongst them all is the requirements of internal control, accountability and transparency.

The EYe Toolkit is modular. One module focuses on one process area. An NGO can pick and adopt the process modules that are applicable to its organization, organizational structure, charitable activities, operational structure and/or the desired level of internal controls.



Core EYe Toolkit 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

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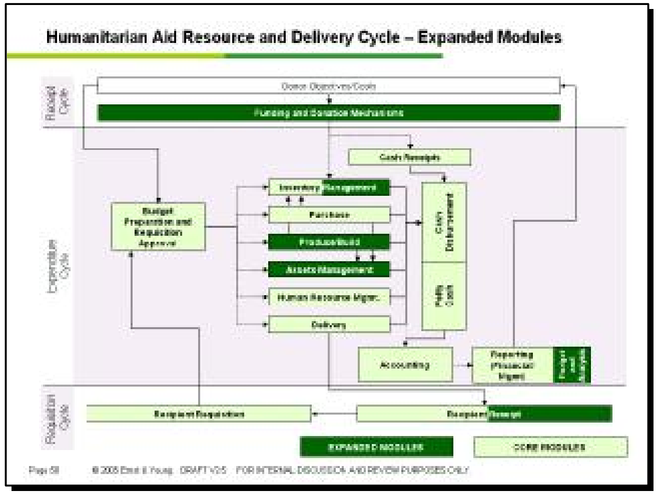


Expanded EYe Toolkit Modules

FUNDING AND DONATION MECHANISMS
- Funding and Donation Mechanisms

INVENTORY MANAGEMENT
- Inventory Planning
- Goods Issuance
- Physical Count
- Inventory Monitoring

PRODUCE & BUILD
- Planning & 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 EYe Toolkit For Your Organization

STEP 1: SETTING THE STAGE → WHO IS YOUR 'RECIPIENT'?

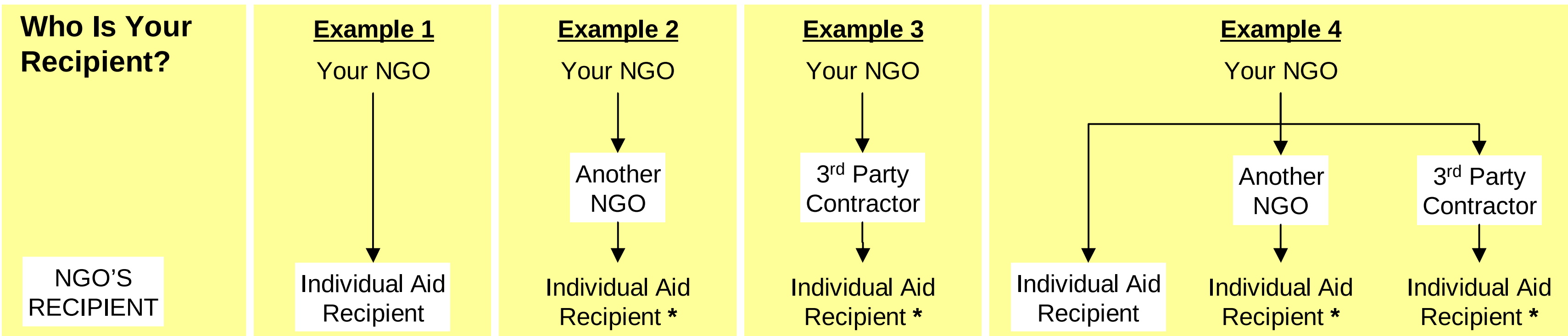
Before applying the EYe Toolkit, it is important to align the concepts of the Toolkit to your organization and visa versa. To do this, it is important to first look at:

- **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 in your organization and what are their current roles?

Does your NGO deal directly with individual aid recipients? Engage other NGOs to provide aid relief? Hire 3rd 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 their distribution and acknowledged receipt of aid.



* **IMPORTANT NOTE:** Although your 'recipient' may be an intermediary, being able to establish what their ultimate recipients need and actually received adds significantly to confirming adequacy of controls from the donor to the ultimate individual aid recipient.

Tailoring The EYe Toolkit 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 *3rd Party Contractor* to provide relief aid to other locations.

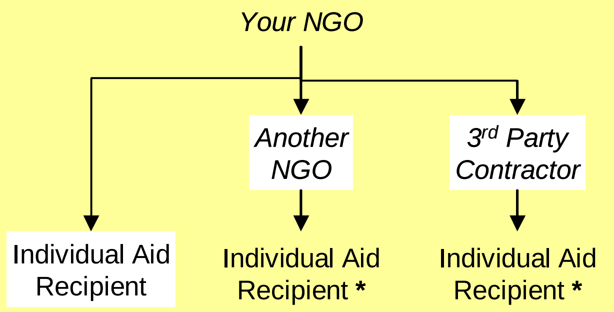
When *Your NGO* provides aid to *Individual Aid Recipients*, its likely that *Your NGO* can determine the *Individual Aid Recipients'* needs through a 'Needs Requisition' Form.

What about the other situations? How will *Your NGO* know 1) how much financial support to give to *Another NGO* or *3rd Party Contractor* and 2) whether it was used properly?

Who Is Your Recipient?

NGO'S RECIPIENT

Example 4



* **Note:** Although your 'recipient' may be an intermediary, being able to establish what the ultimate recipient needs and consumes improves the quality of control that can be achieved.

In both of these cases, the recipients' needs (*Individual Aid Recipients* of *Another NGO* and *3rd Party Contractor*) should be communicated to *Your NGO* through the completion of a 'Needs Requisition' Form. *Individual Aid Recipients* will request for specific goods and services while *Another NGO* and *3rd Party Contractor* will request for 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 request for funds, the transaction will go to cash disbursements. Delivery will then follow the usual delivery channel.

Tailoring The EYe Toolkit For Your Organization

STEP 1: SETTING THE STAGE → WHAT IS YOUR DESIRED LEVEL OF INTERAL CONTROL?

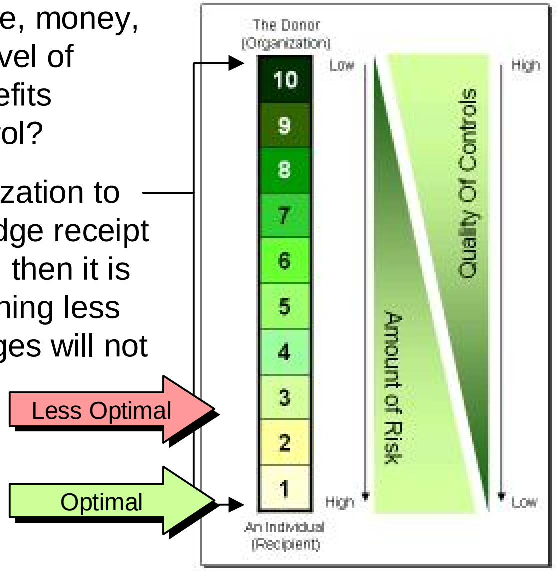
Before applying the EYe Toolkit, it is important to align the concepts of the Toolkit to your organization and visa versa. To do this, it is important to first look at:

- 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 in your organization and what are their current roles?

Its 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 (in terms of time, money, capability) of gathering this level of information 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.), please be aware that certain limitations are being introduced into your system of internal control that will be difficult to monitor.



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Tailoring The EYe Toolkit For Your Organization

STEP 1: SETTING THE STAGE

Before applying the EYe Toolkit, it is important to align the concepts of the Toolkit to your organization and visa 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 in your organization and what are their current roles?

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 would. 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 which limits access to IT and its infrastructure.

Tailoring The EYe Toolkit For Your Organization

STEP 1: SETTING THE STAGE

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- How much information technology is (or will be available)?
- **What type of transactions are you involved with?**
- How many people in your organization and what are their current roles?

WHAT TYPE OF TRANSACTIONS ARE YOU INVOLVED WITH?

Does your NGO employee 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.

By 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.

Tailoring The EYe Toolkit For Your Organization

STEP 1: SETTING THE STAGE

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- What type of transactions are you involved with?
- **How many people in your organization and what are their current roles?**

HOW MANY PEOPLE IN YOUR ORGANIZATION AND WHAT ARE THEIR CURRENT ROLES?

The EYe Toolkit was designed assuming 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 mis-use 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

Tailoring The EYe Toolkit For Your Organization

STEP 1: SETTING THE STAGE →

Before applying the EYe Toolkit, it is important to align the concepts of the Toolkit to your organization and visa versa. To do this, it is important to first look at:

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- What type of transactions are you involved with?
- **How many people in your organization and what are their current roles?**

HOW MANY PEOPLE 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 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 they leave the organization or are absent for long periods, then operation of that function will cease to occur.

Tailoring The EYe Toolkit For Your Organization

STEP 1: SETTING THE STAGE

Before applying the EYe Toolkit, it is important to align the concepts of the Toolkit to your organization and visa versa. To do this, it is important to first look at:

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- What type of transactions are you involved with?
- **How many people in your organization and what are their current roles?**

HOW MANY PEOPLE IN YOUR ORGANIZATION AND WHAT ARE THEIR CURRENT ROLES?

Delegation of Authority and Authorization Limits

The Trustees delegate authority through the 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 will, therefore, 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 expenditure 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 lays the individual open to claims of impropriety and calls into question the honesty of management.
- Sub-ordinates must not authorize payments to managers – they must be passed to someone who is more senior in the management structure.

STEP 2: PICKING THE RIGHT MODULES FOR YOUR NGO

As a guide, EY has develop 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 the responses you give.

Œ Find the “Pick List” in the EYe Toolkit Framework manual and answer **Yes** to each question that is applicable to your NGO.

• Look at the list of EYe Toolkit modules (core or expanded) and find the module or modules that match each affirmatively answered question.

Ž 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.

Œ Answer Yes/No to the questions in the Pick List

EYe Toolkit Pick List

What are the type resources that your are allocated or received?	Applies To Our NGO? (YES or NO)	Relevant Module	Relevant Process(es)
Allocated monies are transferred or received	☑ Yes	CASH RECEIPTS	B.02.1 Bank Receipts
Allocated / donated goods or services are received	☐ Yes	INVENTORY MANAGEMENT	B.03.2 Receipt of Goods or Services

• Select the appropriate modules/ processes as indicated.

EYe Toolkit Core Modules

CASH RECEIPTS
- Bank Receipts

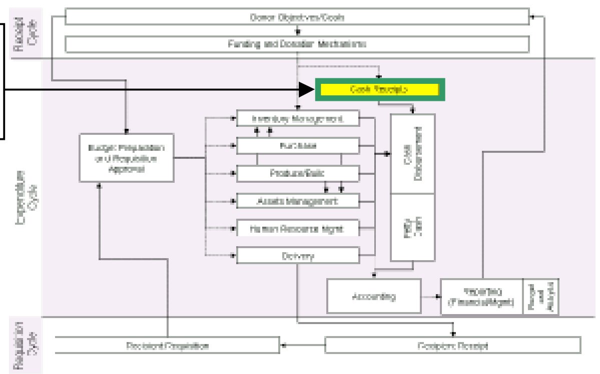
INVENTORY MANAGEMENT
- Receipt of Goods or Services

PETTY CASH
- Petty Cash Payment & Replenishment

ACCOUNTING

Ž Remap the framework indicating only the modules required

Humanitarian Aid Resource and Delivery Framework



EYe TOOLKIT CORE MODULES

"Helping you keep an eye on things."

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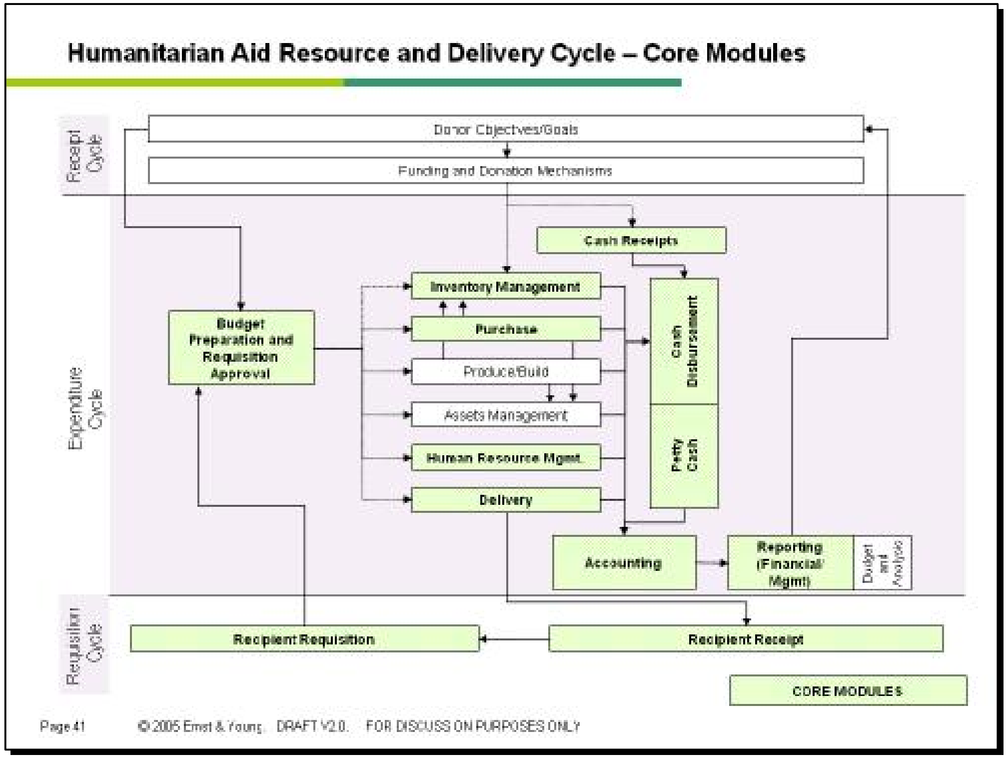
EYe Toolkit Core Modules

THE CORE MODULES INCLUDED IN THE EYe TOOLKIT.

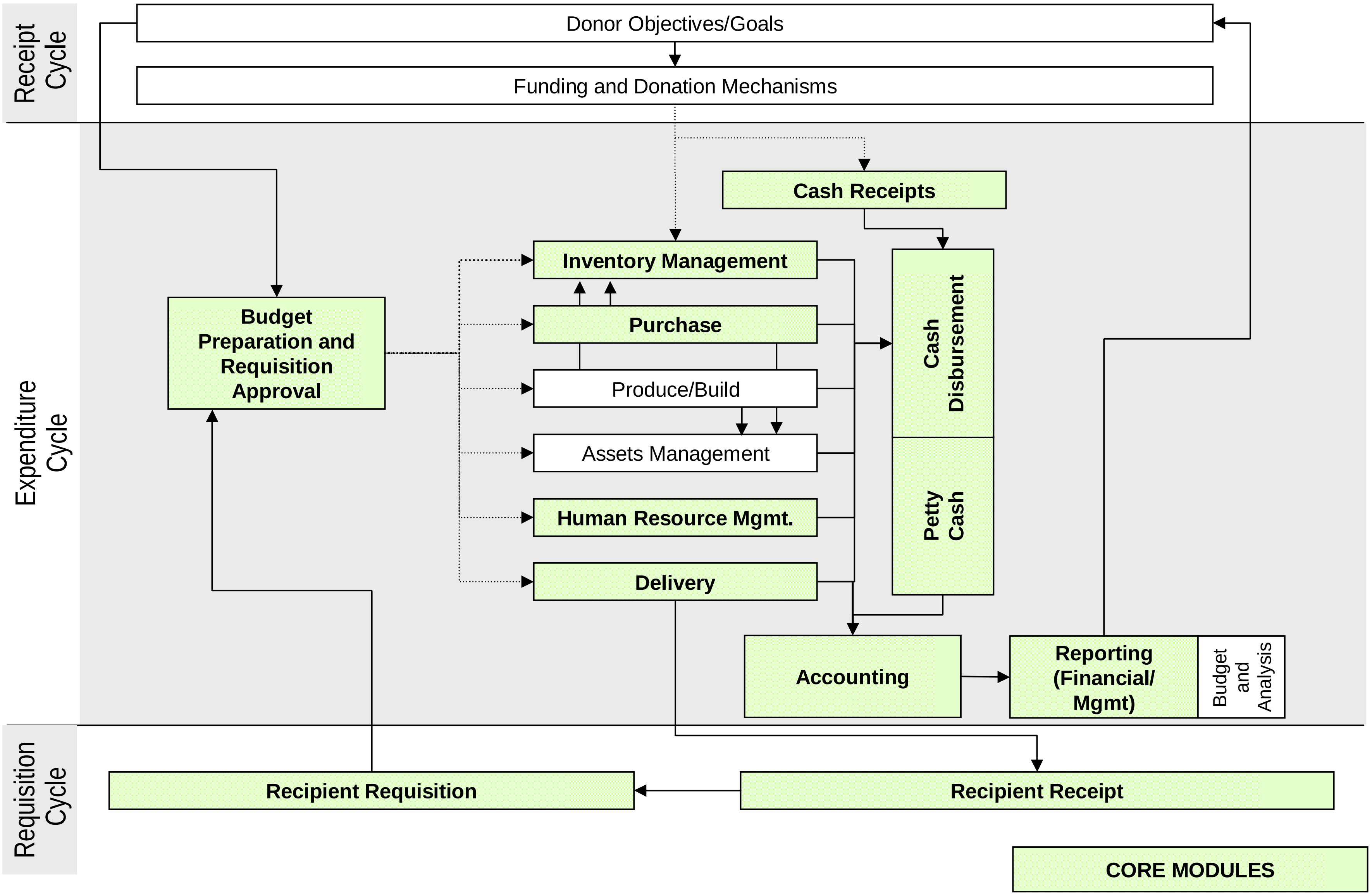
Activities of nearly all charitable organization focus on either raising funds / donations, procuring the goods and services that the recipients need using the donated resources and then delivery of those goods and services to the intended recipients.

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 Cycle – Core Modules

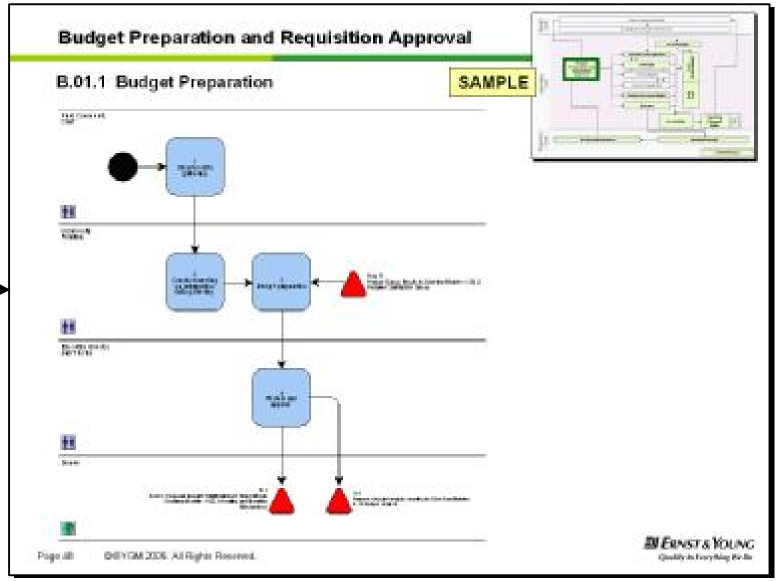


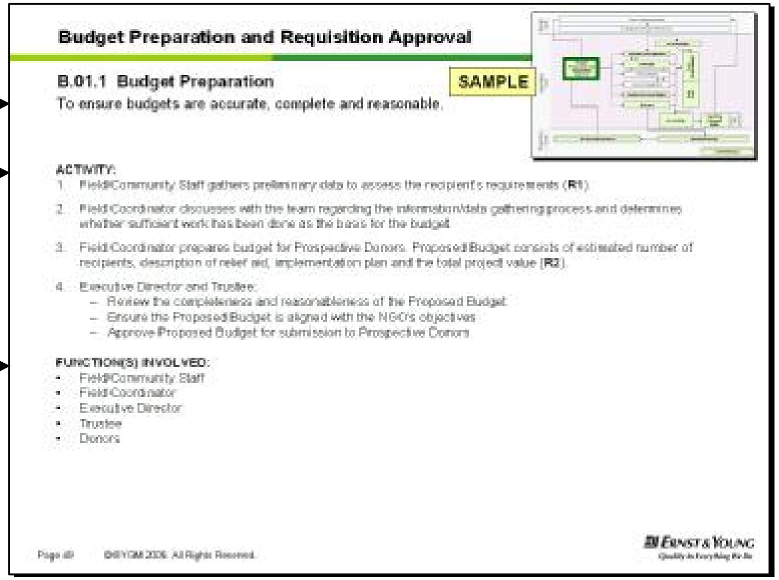
EYe Toolkit Core Modules

WHAT'S INCLUDED IN EACH MODULE?

For each module, the EYe Toolkit 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.





Budget Preparation and Requisition Approval

B.01.1 Budget Preparation

SAMPLE

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
   - Approve Proposed Budget for submission to Prospective Donors

FUNCTION(S) INVOLVED:

- Field/Community Staff
- Field Coordinator
- Executive Director
- Trustee
- Donors

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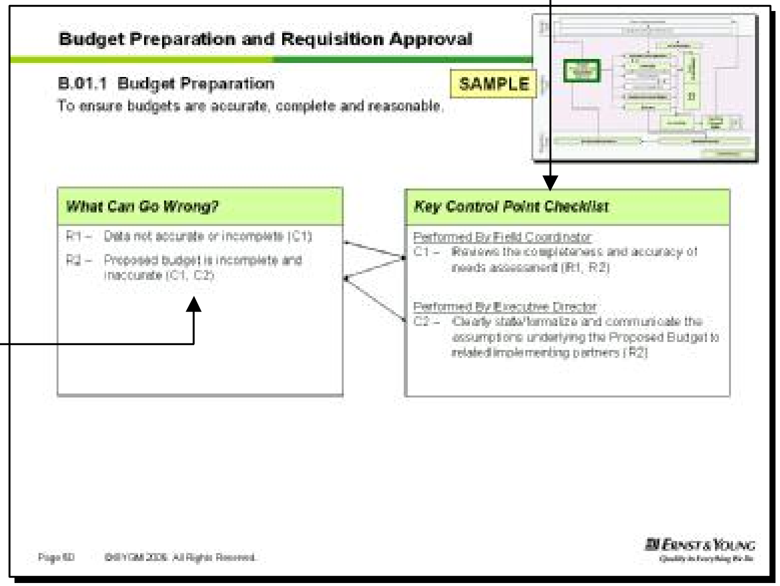
EYe Toolkit Core Modules

WHAT'S INCLUDED IN EACH MODULE?

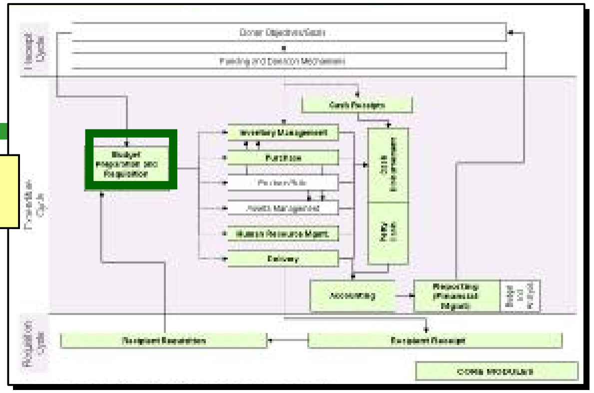
For each module, the EYe Toolkit contains:

- A list of prevent and detect controls transformed into checklist for easy evaluation for 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.



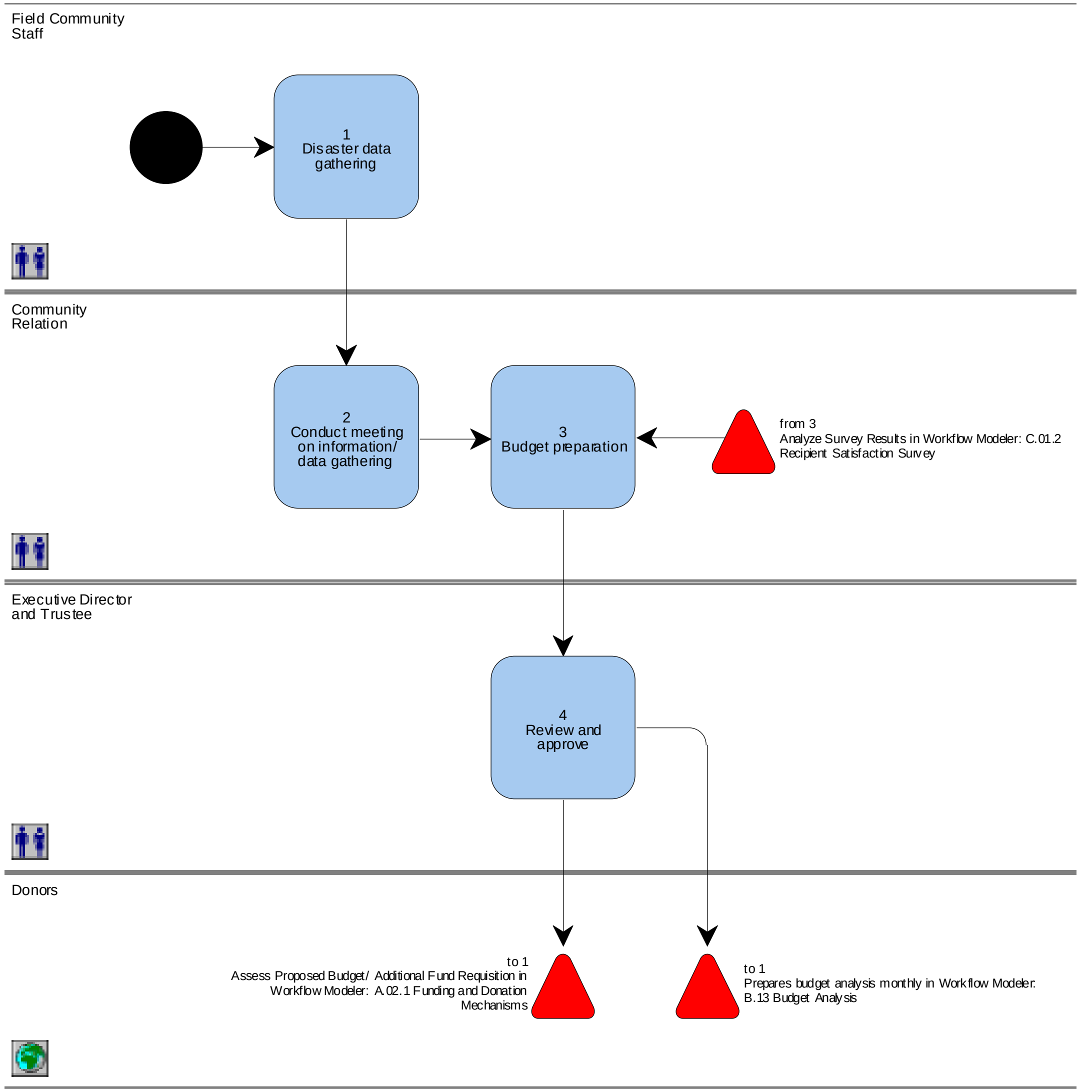
NOTE: Use of automated systems will depend on the size of the organization and the volume of transactions. However, a basic computerized accounting system is more preferable because of the additional controls and the reporting capabilities that it would provide.

Budget Preparation and Requisition Approval

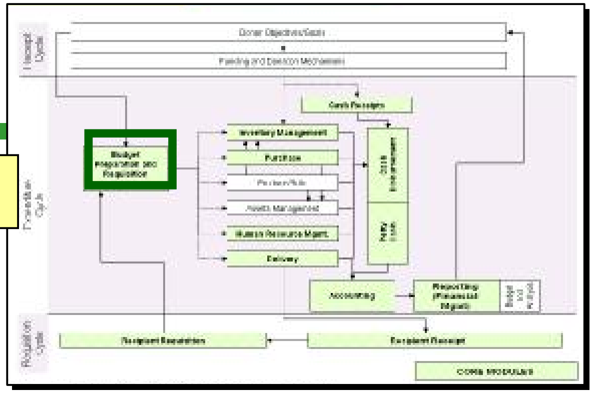


B.01.1 Budget Preparation

SAMPLE



Budget Preparation and Requisition Approval



B.01.1 Budget Preparation

SAMPLE

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
   - Approve Proposed Budget for submission to Prospective Donors

FUNCTION(S) INVOLVED:

- Field/Community Staff
- Field Coordinator
- Executive Director
- Trustee
- Donors

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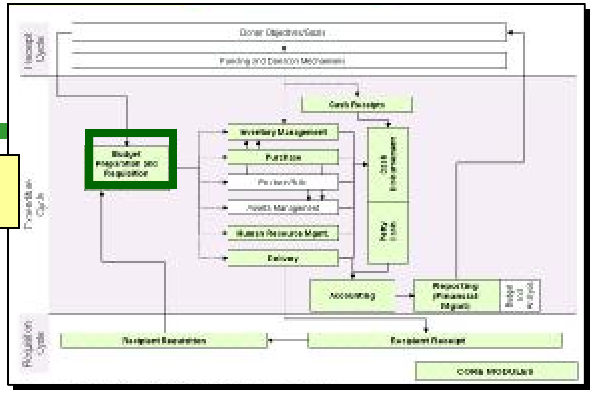
Budget Preparation and Requisition Approval



B.01.1 Budget Preparation

SAMPLE

To ensure budgets are accurate, complete and reasonable.

What Can Go Wrong?
R1 – Data not accurate or incomplete (C1)
R2 – Proposed budget is incomplete and inaccurate (C1, C2)

Key Control Point Checklist
<u>Performed By Field Coordinator</u>
C1 – Reviews the completeness and accuracy of needs assessment (R1, R2)
<u>Performed By Executive Director</u>
C2 – Clearly state/formalize and communicate the assumptions underlying the Proposed Budget to related implementing partners (R2)

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TOOLKIT EXPANDED MODULES

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EYe Toolkit Expanded Modules

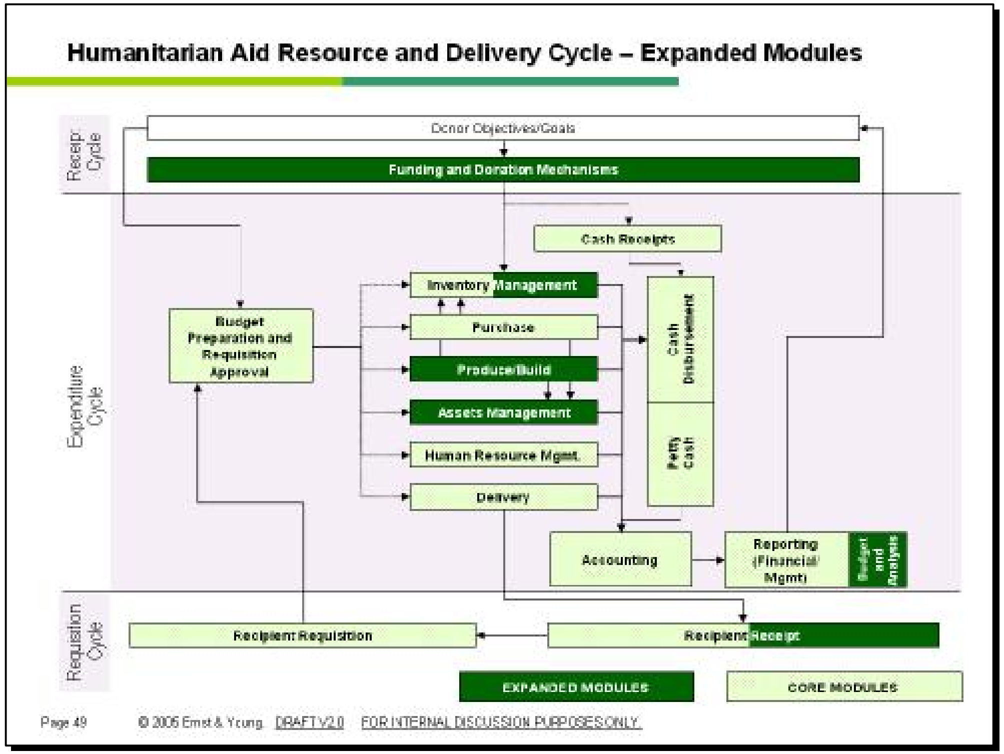
THE EXPANDED MODULES INCLUDED IN THE EYe TOOLKIT.

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

The expanded modules of this toolkit (listed below), 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 additional processes have been added to the core modules to help NGOs manage more specific situations.



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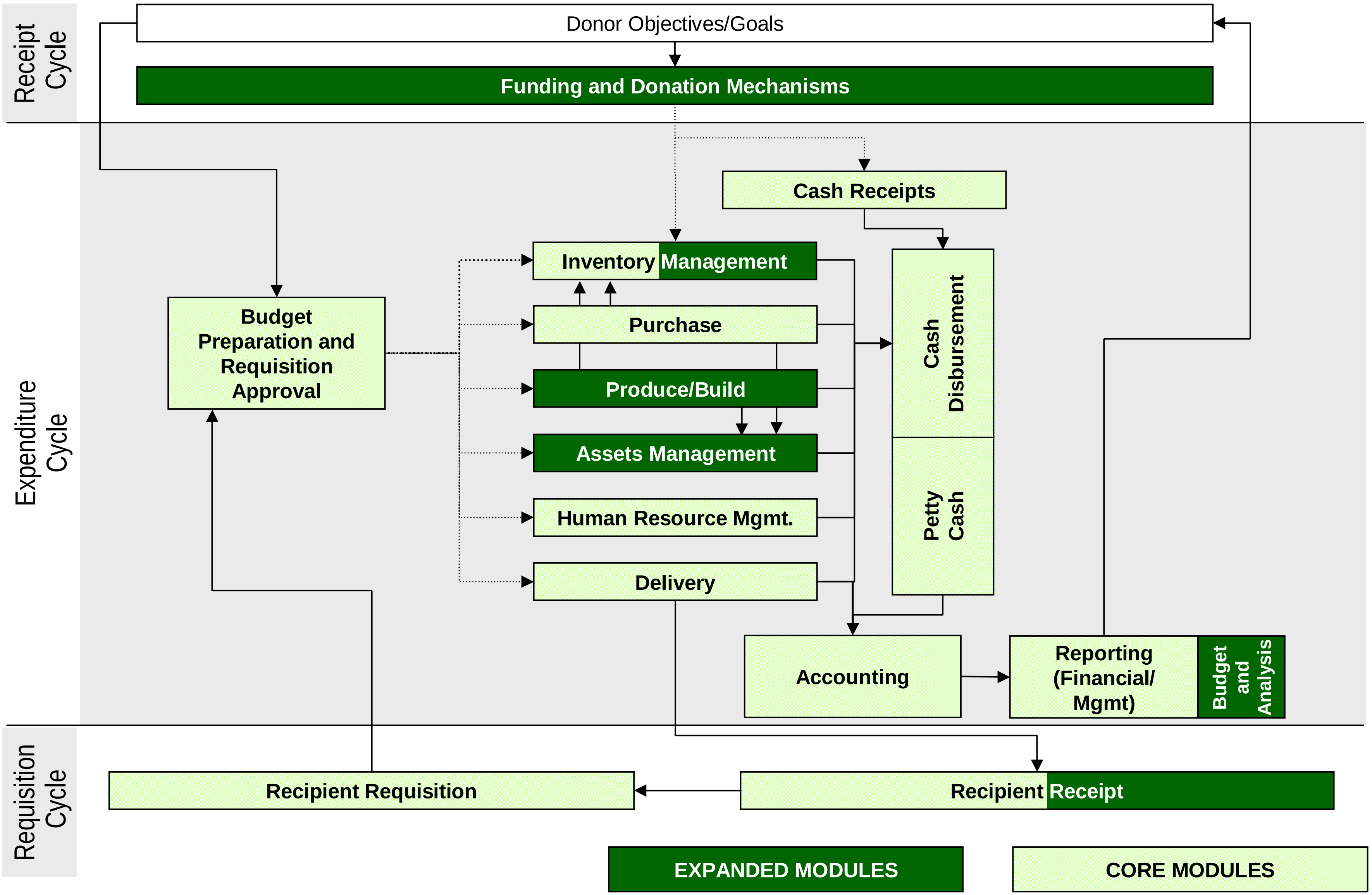
Humanitarian Aid Resource and Delivery Cycle – Expanded Modules



GLOSSARY OF TERMS

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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 which 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 application of internal control in a corporate environment. It has become the globally accepted benchmark against which to evaluate adequacy of internal control systems.
- **Database.** A computerized data storage system that has the advantage over a manual filing system of enabling users to easily present, reformat and analyze the 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) that are owned by an organization which 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. Whilst 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, which 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 which 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

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Frequently Asked Questions

How can the EYe Toolkit help improve the efficiency and effectiveness of how relief goods and services reach the intended recipient in tact?

Answer – The EYe Toolkit contains preventive and detective internal controls that improve and identify accountability as the goods or services move from supplier to recipients.

Is the EYe Toolkit fool proof?

Answer – There is no system of controls that is fool proof. 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 EYe Toolkit?

Answer – While the EYe Toolkit 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 EYe Toolkit?

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 for better appreciation of the Toolkit's capabilities or seek professional advise when adopting it to a specific situation / 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 advise.

What do I need to do first to put the bring the concepts within the EYe Toolkit in 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 you have processed all your transactions but a module has not been utilized. Either adopt what is missing or remove what is not being used.

What should I do when I learned 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 that 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 / program?

Answer – Although every program / 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 make considerations for these activities in your overall plan and to continue the systems of internal control already in place during that post-period.

Answer – When a program / project ends, the project or its recipients often need something more to ensure the sustainability and success of work just completed but 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, please consider helping the recipients prepare appropriate applications for additional support for these additional requirements.

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