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## **Review of the Deloitte assessment of Global Green Growth Institute (GGGI) in Indonesia and Ethiopia- “GGGI Reports of actual findings of the GGGI Assessment”**

Reference is made to KEM's request dated 03.02.2014 to review 2 country programme reports prepared by Deloitte: “*Report of actual findings of the GGGI Assessment- Indonesia*” and “*Report of actual findings of the GGGI Assessment- Ethiopia*”.

The review has been carried out by the Aid Management Section in Norad's Department for Quality Assurance (AMOR). We have reviewed the reports and have cross checked the Deloitte findings with the endorsed GGGI Finance Policies and Procedures manual (C4/5), the endorsed staff travel policy and procurement policy in order to verify if the corporate policies address the weaknesses identified at GGGI Indonesia and Ethiopia.

In addition we want to draw your attention to that today we have also received and quickly read through the “GGGI Management Response to the Report of Actual Findings - GGGI Ethiopia, Indonesia and Seoul Headquarters Assessment undertaken by Deloitte” dated 12<sup>th</sup> February 2014. The Management report confirms our comments that many of the weaknesses identified by Deloitte are already addressed or under implementation as of today. Moreover, GGGI management is committed to follow up the outstanding recommendations from Deloitte. This is also consistent with our recommendation related to HQ monitoring.

### **Background:**

These two country programme reports are part of the overall GGGI assessment requested by MFA in December 2013. Deloitte has also produced the first report which was focusing only at GGGI HQ/Seoul office. The main conclusion from the HQ assessment was that the weaknesses in regards to financial management has been implemented or are under implementation due to endorsement of various corporate policies and procedures as well as implementation of the Enterprise Resource Planning System (ERPS).

The primary objective of these two country assessments was *«to assess whether internal controls related to financial management are adequately designed and operating effectively.»*

### **Quality of the reports:**

In general the two country programme reports give an overall good picture of the financial management situation at GGGI Indonesia and GGGI Ethiopia. The reports are primarily in line with the TOR, with minor exceptions where assessments were not possible due to differences in operational activities. Deloitte identified weaknesses and provided recommendations in order to eliminate those. Deloitte findings are supported with samples analysis and examples. The overall quality and content is satisfactory, however we have identified some room for improvements/weaknesses:

1. The cut-off date of the assessment is September 2013. We consider that the limited scope of this exercise is unfortunate and does not give an accurate picture as of today's operations/financial situation at these country offices/programmes. Since September 2013 GGGI have made significant progress towards sound financial management (e.g. approved Financial Policies and Procedures manual, creation of Organization and Delivery Unit (ODU) and a new Enterprise Resource Planning System is under implementation and testing etc). We believe that some of the weaknesses identified by Deloitte are now addressed or under implementation. (This is confirmed by GGGI's Management response dated 14.02.2014).

2. We observe the lack of linkage between the Deloitte report "Report of Actual findings of the GGGI assessment HQ/Seoul" and these two reports. (For example, GGGI Indonesia was treated as the "project" and financial management was mainly conducted from HQ/Seoul). Some issues identified in these reports are corporate issues and some related to specific country challenges; we miss this differentiation as well. (E.g. bank reconciliation is corporate but for example register of the Ethiopia office is country specific).

### **General comment:**

General comment: It is essential that recommendations highlighted in these two reports are followed by GGGI Indonesia and GGGI Ethiopia. In addition, GGGI HQ should monitor their implementation for example on a monthly basis with GGGI Ethiopia and on a quarterly basis with GGGI Indonesia. Furthermore, action plans can be developed for both Indonesia and Ethiopia with measures to address the recommendations and estimated deadlines. Both GGGI Indonesia and GGGI Ethiopia are encouraged to report monthly/quarterly on the implementation progress of recommendations.

The best way to prevent misuse of funds is to develop a strong set of internal controls and to enforce them. We suggest that especially GGGI Ethiopia is monitored closely by GGGI HQ. We consider/assume that weaknesses identified at GGGI Ethiopia are

not only policies compliance issues but also show weak internal control and/or inadequate guidance. (The weaknesses are mainly related to staff allowances, cash-on hand as well as issues related to procurement management (nonexistence of contract management procedures).

### **Summary of Deloitte's recommendations and AMOR's comments - GGGI – Indonesia:**

Based on assessment of risks and effectiveness of internal controls in GGGI in Indonesia, Deloitte's conclusion is: "*in general, the system of internal controls is designed to meet the organization's objectives*". (e.g. clear segregation of duties within finance/accounting function; finance staff has required qualifications, separate programme bank account for MFA fund, overall compliance with travel policy).

However, the following areas for improvements were identified:

#### 1. Monthly analysis/review of the budget against actual expenditure.

GGGI Indonesia should perform monthly analysis/review of the budget against actual expenditure. This give GGGI a better overview of unrealized /delayed activities, will help to monitor and control actual costs of carrying out activities and improve donor reporting.

GGGI Finance Policies and Procedures manual address this recommendation, (C4/5) para 3.8.7 -3.89 and states "*that the budget should be monitored on monthly bases and that the program owners must be alerted if unusual patterns of expenditure occur*".

#### 2. Petty cash reconciliation.

GGGI should perform regular petty cash reconciliation. This is important in order to ensure that funds are not used inappropriately.

This recommendation is in line with GGGI Indonesia's plans to perform petty cash reconciliation in accordance with the GGGI Finance Policies and Procedures manual (C4/5) para: 8.3.7.

#### 3. Petty cash payments.

Payments from the petty cash should be in accordance with GGGI Finance Policies and Procedures manual (individual transaction limits 250 USD), para 8.3.2.

#### 4. Gain/loss from currency exchange.

GGGI should correctly record any gain/loss from currency exchange. GGGI Finance Policies and Procedures manual address this recommendation, para 3.8.15.

#### 5. Clearly define what incidental expenses are allowed.

The travel policy endorsed in 2013 addresses these issues and gives clear guidance which expenses are allowed. (ref: GGGI Staff rules and GGGI Rules on Travel Expense).

## Summary of Deloitte recommendations and AMOR comments -

### GGGI – Ethiopia:

Based on assessment of risks and effectiveness of internal controls in GGGI Indonesia, Deloitte’s conclusion is: *“efforts are made to improve the overall accounting system and related internal controls. However there are matters such as Ethiopia office registration, setting up an accounting system with complete functionality, internal controls and overall donor monitoring required improvement”*

The following areas for improvements were identified by Deloitte, and should be closely monitored by GGGI HQ Seoul

#### 1. Bank reconciliations.

Deloitte points out those bank reconciliations should be performed on regular basis by GGGI Ethiopia.

Regular bank reconciliations will allow GGGI Ethiopia to compare account records to the bank’s records of GGGI Ethiopia’s account balance in order to uncover any possible discrepancies. (Bank reconciliation is one of the mitigation measures in order to avoid financial irregularities). GGGI Finance Policies and Procedures manual (C4/5) para 7.4.1 address this recommendation and states *“Bank reconciliations between the bank ledgers and the bank statements shall be prepared on a monthly basis for all bank accounts.”*

#### 2. Develop an approved annual work plan that is aligned with the approved budget in order to track planned activities.

The report highlights that there is no detailed work plan that is clearly aligned with the approved budget. In addition, the budget breakdowns developed by GGGI Ethiopia for travel and other activities were not approved by either HQ or respective donors.

#### 3. Appropriate segregation of duties.

The Report highlights that GGGI Ethiopia should secure appropriate segregation of duties within the payable process. Segregation of duties within payable process is one of the most important features of an internal control plan and the measure to mitigate risks of inappropriate use of funds.

#### 4. Integrate budget management with the financial accounting system to avoid differences and ensure proper records of transactions.

#### 5 Establish contract management procedures.

GGGI Ethiopia does not have a contract management process to ensure that procurement contracts are fulfilled as required. Contract Management is important throughout the entire process of the contract cycle and not just at award process. Contract management is crucial in order to monitor the project deliverables, which will have an impact on overall programme activities given that many activities depend on timely procurement.

6. Payment of salaries and allowances.

GGGI Ethiopia should comply with the GGGI staff policy in regards to relocation allowance and payment of salaries. The report shows that some staff allowances are made on a lump sum payment and not based on actual cost incurred.

7. All transactions should be timely reflected in the accounting system to ensure that reports produced from the system provide an accurate and complete picture of the financial position of GGGI Ethiopia office.

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