



Review of Internal Management and Control of IBON Foundation Inc.

Swedish International Development Aid

21 September 2018

Glossary

Abbreviation	Definition
BoT	Board of Trustees
CC	Coordination Committee
CSOs	Civil Society Organizations
CPDE	CSO Partnership for Development Effectiveness
DD	Deputy Director
EB	Editorial Board
ED	Executive Director
EU	European Union
EUR	Euro
GPEDC	Global Partnership for Effective Development Cooperation
HQ	Headquarters
IAC	International Advisory Committee
IBON	IBON International Foundation
ManCom	Management Committee
MoU	Memorandum of Understanding
PHP	Philippine Peso
ToR	Terms of Reference
USD	United States Dollar

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1 Introduction

1.1 Objectives and Approach

The Assignment is based on the Framework Agreement and the Terms of Reference (ToR) between the Swedish International Development Cooperation Agency (Sida) and KPMG. According to Sida's Contribution Management Rule, a risk analysis of a funding partner must be conducted during the assessment phase or during the agreement period. One part of this analysis consists of reviewing the internal management and control systems of the agreement partner. As a result, KPMG has been engaged to perform a review of internal management and control of IBON International Foundation Inc. Manila (hereafter referred to as 'IBON').

The Assignment focuses on the specific internal management and control framework systems at IBON's Headquarters (HQ) based in Manila, Philippines.

The overall objectives of the Assignment are to:

- Answer the specific questions outlined in the ToR through an analysis of management and organisation, risk management, anti-corruption, audit, procurement, financial management and forwarding of funds; and
- Identify weaknesses and provide recommendations.

This report begins with an executive summary, including our recommendations on weaknesses identified during the review. It then provides a general overview of IBON and its finances. The remaining sections provide observations, analysis and conclusions on the specific questions in the ToR grouped into the categories mentioned above.

The methodology used in this Assignment includes a review of the governance structure and relevant frameworks, including organisational and management policies, interviews with key personnel, and an examination of supporting evidence regarding governance, risk management, anti-corruption, audit, financial management and forwarding of funds. Specifically, we have:

- Obtained and reviewed relevant documentation in relation to the scope of the assignment;
- Conducted a field visit to IBON International in Manila, Philippines and interviewed members of the Board of Trustees, management team and other relevant staff; and
- Conducted a desk study of relevant material for the CSO Partnership for Development Effectiveness (CPDE) programme.

1.2 List of Interviewed Persons

Name	Position	Organisation
Amerina Padilla-Ac-ac,	Executive Director	IBON
Reileen Joy Dulay	CPDE Executive Secretary	IBON
Roberto Pinauin	CPDE Programme Manager	IBON
Jodel Effin Dacara	CPDE Network Manager	IBON
Marc Adrian Ignacio	EC and Sida Project Manager	IBON
Maria Teresa Dominong	CPDE Finance Manager	IBON
Angelita Jimenez	Head of Finance Unit	IBON
Jazmina Lumang	General Secretary IBON BoT member	Asia Pacific Research Network
Edwin Dela Cruz	Lawyer	IBON Board of Trustees
Vitalice Meja	Executive Director. CPDE Board Co-chair	Reality of Aid Africa
Julia Sanchez	Former President and CPDE Programme and Finance Committee Chair	Canadian Council for International Cooperation
Jake Bharier	Convenor of the CPDE Independent Accountability Committee	Independent Trustee at Mountain Rescue England and Wales

2 Executive Summary

IBON International Foundation Inc. (IBON) is a non-profit service institution based in the Philippines that provides a broad range of capacity development functions to social movements and civil society organisations (CSOs) in all regions of the world. IBON promotes social justice and social transformation through research, education, information, advocacy and support for international networking and partnership. IBON initiates and implements international programs, develops and hosts international networks, participates in international advocacy campaigns, and establishes regional offices. In order to manage its mandate, IBON has expanded its staff base, established a policy framework and developed financial and project management systems to support the internal control environment. IBON has also adjusted its organisational structure, job descriptions and roles of staff members during its international growth. The results of this Assignment indicate that IBON has a sufficient organisational structure and policy framework, complemented by a sufficient level of internal controls (including duty segregation, authorisations and reviews). The management structure has clearly defined roles, authorisations and authorities and there are clear reporting lines in place. The global structure, internal routines and financial management processes provide a framework for accountability, liability and sound decision making.

Within the scope of this Assignment, there are sufficient and appropriate policies, routines and practices, which provide guidance to the roles, authorisations and authorities. Based on our sample testing, the systems and procedures are functional and mainly sufficient. The internal control environment and operational systems provide a platform for reliable and accurate reporting. Additionally, there are sufficient measures in place to allow adherence to internal procurement rules and control of forwarding of funds. However, there are some deficiencies with some of the IBON's operations as stated in the following table. These defects should be addressed in order to improve IBON's reliability and operations.

Main Observations and Recommendations

The following table presents our observations, risks and recommendations in category and priority order. Recommendations rated "high" require immediate attention. The "medium" rated recommendations need to be implemented within six to twelve months. There are no "low" rated recommendations. Management has acknowledged the recommendations and plans to implement mitigating responses within three to six months from the date of this report.

Observations, Risks and Recommendations			
	Observations and Risks	Recommendations (Report Reference)	Priority
	Management and Organisation		
1	None of the policies have a version number, date of the last revision or a policy owner. There is a risk that staff members may not be aware of the most recent policy version.	IBON should ensure all current policies include a version number, date of last revision and policy owner. (4.b)	Low

Observations, Risks and Recommendations			
	Observations and Risks	Recommendations (Report Reference)	Priority
2	Some deficiencies were noted in the supporting documentation related to incur costs. For example, travel expenses were not supported with approved Travel Authorisation Forms to justify the travel. There is a risk that ineligible expenses are paid.	All financial transactions recorded must have proper supporting documents attached in order to verify the nature and validity of the expense/payment. If part of the supporting documentation is filed elsewhere, the filing location of the supporting documentation should be included in the expenditure vouchers and the proper filing period of all supporting documentation should be ensured. IBON is recommended to ensure a proper audit trail. The authorisation and approval procedures should be adhered to in full. (4.f)	Medium
3	IBON has established clear internal guidelines for central administrative and financial procedures. However, the guidelines do not include guidance on the use of credit cards. IBON also entitles staff to claim travel allowance which is a fixed sum depending on the destination but irrespective of the duration of travel. There is a risk of inappropriate use of funds.	IBON should consider using standard daily rates for travel allowances per country/continent, and not a fixed sum per destination. IBON should establish guidelines for the use of credit cards. (4.g)	Low
Anti-Corruption			
4	The whistleblowing policy does not adequately describe a detailed mechanism on how it works in practice. Without adequate whistleblowing procedures, there is a risk that not all incidents are reported.	The Procedures Manual should be updated to reflect the practical steps that make up the whistle blower mechanism. This should include, for example, the contact person and method of contact (such as a secure email address and/or phone number), the steps to be taken for an investigation, and the required documentation. (6.a)	Medium
Audit, Procurement and Financial Management			
5	IBON has not established a documented follow-up for audit issues and recommendations. Management responses and action plans are not collected in a summary table to track corrective actions. As a result, significant findings and associated risks may not be adequately considered.	IBON should establish and document follow-up procedures for audit observations and recommendations (an audit log) with management responses, an action plan and status update. The status of the audit log should be reported to the Board on an annual basis. (7.a)	Low
6	IBON has an established procurement guideline that outlines the general procedures for procurements. IBON has not however establish a list of approved/preferred vendors/service	IBON is recommended to tender possible service contracts between EUR 60,000 and less than EUR 300,000 and establish a list of approved/preferred	Low

Observations, Risks and Recommendations			
	Observations and Risks	Recommendations (Report Reference)	Priority
	providers. This can lead to procuring vendors with personal interest or even the staff gaining side income from choosing certain vendor.	vendors/service providers and use these as a first choice. (7.b)	
Forwarding of funds/sub-granting			
7	In the MoUs between IBON and its implementing partner organisations, the retention period for accounting documents differs from the retention period stipulated in the grant agreement between Sida and IBON. If the partner organisations are not obligated to retain project-related accounting materials for the same period of time that Sida is allowed to carry out verifications, there is a risk that project-related documentation will not be available and it will be impossible to verify the validity of reported expenses.	IBON is recommended to align the terms in its partner MoUs with the Sida terms regarding the retention period of project-related accounting materials. (8.b)	Medium
8	IBON maintains an overview of the status of all reporting received from implementing partner organisations. However, this monitoring tool does not include information about the review of reports, issues raised during the review, or whether the issues have been resolved. As a result, there is an increased risk that issues noted in the reporting may not be addressed in a timely and sufficient manner.	IBON is recommended to establish guidelines and a check-list/routine for the review of partner reporting and to document the review performed. (8.c)	Low
9	KPMG noted deficiencies in the financial reporting and supporting documentation received from partner organisations. Without appropriate supporting documentation and justifications, there is a risk that ineligible expenses are paid for with grant funds.	IBON should ensure the validity of the financial reports received from partner organisations and demand a proper audit trail from the expenditure vouchers to the financial report. Reported expenses without proper supporting documentation should not be recorded as an expense of the project. (8.c)	High
10	The reporting requirements of implementing partner organisations are not adhered to, which causes IBON to fail in its own reporting obligations. As a result, fund disbursements to IBON and onward to the implementing partners are delayed, and there is a risk that project implementation will be delayed and the objectives will not be achieved.	IBON should establish procedures that will ensure it is able to report to donors in a timely manner. (8.c)	High

3 Background

3.1 IBON

IBON Foundation was launched in 1978 as a biweekly newsletter focused on socio-economic data and analysis in support part of the mass resistance against the repressive Marcos dictatorship in the Philippines. By the 1980s, it was functioning as a non-governmental organisation. IBON's work accelerated in the early 1990s and an international department was established in 1998.

IBON International Foundation Inc. (IBON) became a separate institution, registered under Philippine law in 2011. IBON's primary objective is to contribute to the capacity development of Civil Society Organizations (CSOs), marginalised groups, and social movements in pursuance of people's rights, democracy, social justice and equality, ecological sustainability and liberation.

IBON works with various CSOs in building consensus on development issues directly and through networks and partnerships. It hosts the Secretariat of several regional and global networks, namely the Consortium for People's Development-Disaster Response, Consortium for People's Development and Governance, Asia-Pacific Research Network, Reality of Aid Network, and CSO Partnership for Development Effectiveness. It also manages various programmes on Climate Justice, Private Sector in Development, Rights Based Democracy/People Power Democracy, and Trade and Investment Agreements and Policies.

3.2 Strategy

The long-term strategic plan of IBON outlines the strategy, goals, mission and vision of the organisation through 2022. IBON's five-year strategy for 2016-2020, which was approved by the Board of Trustees (BoT) in 2015, communicates the objectives and methodologies within its mandate and provides direction for its operations. It also provides a general presentation of IBON's mission, values and work methods.

In the current strategy, IBON has set goals for:

- Developing programs for advocacy and campaigns
- Building branches in the Global South
- Undertaking strategic policy research
- Linking international and national campaigns and advocacy
- Ensuring organizational development
- Developing and working through global, regional, and thematic platforms

One key priority outlined in the IBON strategy is to host regional and global platforms and networks that:

- Address the roots of poverty, inequality, exclusion, environmental destruction and injustice through a process of social transformation.
- Contribute to the advancement of Rights-based Democracy/People-Powered Democracy through partnerships with people and their organisations that are exercising and claiming their rights and meaningfully engaging with other actors.

- Focus on the themes of:
 - Rights-Based Democracy/ People Powered Democracy,
 - Public-Private Partnerships/ Corporatization of Development,
 - Trade, and
 - Climate Justice.

In the beginning of 2018, IBON underwent a midterm review of its strategic plan to evaluate its direction and enrich its key messages on emerging priorities. The review also assessed the adequacy of the organizational structure to fulfil the strategic objectives. The current strategic plan is the third iteration and reflects the development of IBON as an institution.

3.3 Financial Summary

IBON's annual revenue for the financial year (FY) 2017 was USD 2.6 million. The revenue had declined from the previous year by USD 1.8 million. This is due to the modified cash basis accounting principle used by IBON, which recognises income on a cash basis and therefore is highly dependent on donor payment schedules. IBON's main source of funding is grants received for charitable activities. In the FY 2017, Sida was IBON's main donor with an operating grant of USD 2.025 million (98.4 % of total grant income). IBON did not receive any fund disbursements from the European Union (EU) during 2017 (in the previous year, it received USD 1.5 million). The CPDE project utilises the majority of IBON expenses (75%).

IBON Income Statements for FY 2017 and FY 2016 are presented in the table below:

Statement of Financial Performance (USD)		
	December 31, 2017	December 31, 2016
Revenue		
Grants	2 056 078	3 922 113
Other Revenue	603 344	568 750
Foreign Exchange gain/loss (-)	-3 302	-7 264
Total Revenue	2 656 120	4 483 599
Expenses		
Civil Society Organisation's Partnership for Development Effectiveness (CDPE)	-2 690 082	-1 671 529
Programme Salaries and Benefits	-158 940	-147 184
Administrative Expenses	-204 901	-172 082
Other Expenses	-231 214	-253 937
Total Expenses	-3 285 137	-2 244 732
EXCESS/DEFICIENCY(-) REVENUE OVER EXPENSES	-629 017	2 238 867

The major asset category of IBON is accounts receivables and other receivables. Grant receivables related to CPDE amounted to USD 2.3 million. At the end of 2017, cash reserves (at the bank and in hand) totalled USD 0.5 million and current investments totalled USD 0.3 million.

IBON's financial position as of 31 December 2017 and 31 December 2016 is presented in the table below:

Statement of Financial Position (USD)		
	December 31, 2017	December 31, 2016
Assets		
Cash on hand and in the bank	297 747	1 457 016
Accounts receivables and other receivables	2 398 691	1 552 223
TOTAL ASSETS	2 696 438	3 009 239
Current liabilities		
Accounts payables and other payables	916 174	512 857
Total Liabilities	916 174	512 857
Fund Balances		
Restricted Fund Balance	1 747 072	2 375 577
Unrestricted Fund Balance	242 455	242 968
Unrealised Foreign Exchange	-209 263	-122 163
Total Fund Balance	1 780 264	2 496 382
TOTAL LIABILITIES AND FUND BALANCE	2 696 438	3 009 239

4 Management and Organisation

4.1 Observation and Analysis

a) **Is the organization an entity that has legal capacity to enter into an agreement with rights and obligations?**

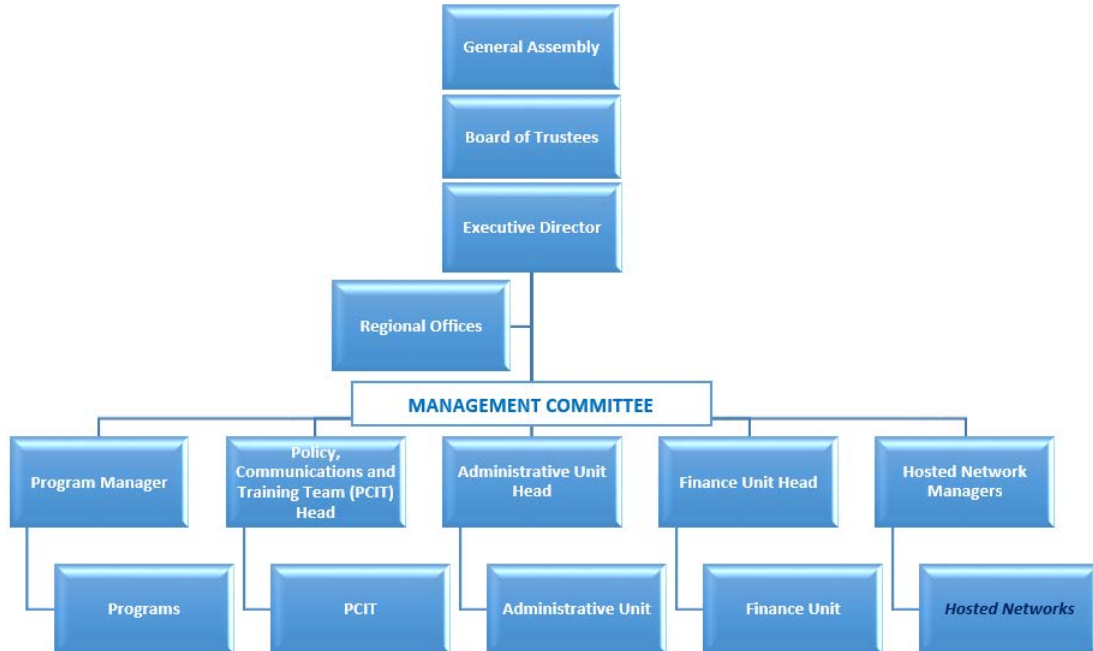
IBON International Foundation Inc. (IBON) is a legal organisation that has the legal capacity to enter into agreements with rights and obligations. IBON has been registered under the Republic of the Philippines Securities and Exchange Commission since February 2011. The registration is renewed on an annual basis. IBON Headquarters is located in Manila, Philippines. Locally registered regional offices are located in Brussels (IBON Europe) and in Nairobi (IBON Africa). KPMG has verified all registrations.

Since September 2014, there has been an official coordination mechanism between IBON Foundation and IBON International. This mechanism is operationalised by the Coordination Committee (CC). Coordination with IBON Africa and other regional/representative offices happens between coordinators and the Executive Director. Political guidance comes from the IBON International Advisory Committee (IAC), in accordance with the Bylaws. The CC meets quarterly and its minutes are reported to the Executive/Management Committees and Board Members or both organisations.

b) **Does the management structure have clearly defined roles, authorizations and authorities?**

IBON's Manual of Policies and Procedures (Procedures Manual) prescribes the organisation's management structure. IBON is governed by a Board of Trustees (BoT) that is elected by its general membership. The BoT includes a Chair, Vice Chair, Treasurer, Secretary and the ED. IBON International's daily operations are led by a Management Committee (ManCom), which is composed of the ED and the department/program heads.

The following table presents the IBON's organisational structure:



IBON's General Assembly for all members is held once every three years. The General Assembly approves the action plan and budget for the following three years and elects new members to the BoT. All members have the right to vote and be elected as an officer of the organisation.

The ED has overall responsibility for IBON's operations, administration and expenditures. The ED reports to the BoT and the General Assembly. The ManCom oversees the day-to-day operations of the organisation. The ManCom maintains a record and minutes of its meetings, and all its decisions are subject to a review by the BoT. ManCom members are appointed by the ED and confirmed by the BoT. The appointment of the ED and confirmation of the members of the ManCom are reviewed and endorsed by staff during the biannual Staff Meeting held with all offices.

Based on our review, IBON functions in accordance with its written policies. However, it was noticed during the review that none of IBON's policies have a version number, a date of last revision, or a policy owner. This may increase the risk that not all staff members are aware of the most recent policy version.

Recommendation

IBON should ensure all current policies include a version number, date of last revision and policy owner.

- c) **Are there bylaws/statutes that clearly stipulate the mandate of the board and the organisation?**
- d) **Present the composition of the board, its members' different competences, the election process and the board's insight in the cooperation of the organisation.**
- e) **Based on the above, does the board have sufficient and relevant competence, including competence in financial matters, for an organisation of this type and size?**

The structure and mandate of the BoT and the organisation as a whole are clearly presented in the Statutes and the Procedures Manual. Presently, there are nine BoT members, which is in accordance with the statutes. Many of the BoT members have been in the BoT for several years. The BoT has one in-person meeting each year and minutes of the meeting are documented. The minutes are approved and signed by the members. The BoT has a designated Chair, Vice Chair, Treasurer and Secretary.

The following table presents the location and background of all current IBON BoT members:

Location	Background
South Africa	Founding member of the Economic Justice Network, a project of the Fellowship of Christian Councils in Southern Africa.
Malaysia	Executive Director of Pesticide Action Network Asia and the Pacific, a regional network working towards the elimination of the hazards of pesticides and the promotion of sustainable agriculture.
Philippines	Labour and maritime lawyer.
Philippines	Author, educator, and scholar known for his active advocacy against nuclear weapons and U.S. military bases in the Philippines. He holds the Centennial Professorial Chair in Development Studies and Public Management at the University of the Philippines, Manila where he has been teaching since 1981.
Senegal	Director of the Forum for African Alternatives in Dakar. He is an economist trained in France and the United States and worked for the Senegalese Ministry of Economy and Finance in the 1980s.
Philippines	Moro woman leader and National President of the Suara Bangsamoro political party.
Kenya	Information and Documentation Officer at the African Women's Development Fund.
Philippines	Global Coordinator of the Indigenous Peoples Movement for Self-Determination and Liberation of the Philippines.
Philippines	International Relations Officer of Kilusang Magbubukid ng Philippines, a democratic and militant movement of landless peasants, small farmers, farm workers, rural youth and peasant women.

The composition of the BoT includes backgrounds in law, economics, theology, international relations and educational work. In our view, the BoT possess sufficient and relevant competencies for this type and size of an organisation. However, it would be

good to include more details on the financial competences of BoT members. The BoT is gender balanced and the quantity of members is in accordance with the bylaws.

Board of Trustees

BoT members indicate that the BoT election system is open and transparent. Trustees are elected in line with the bylaws. Designated BoT members are responsible for approving all the checks and money transfers. BoT members are of the opinion that the controls are adequate within the organisation. Appointed BoT members communicate with IBON on a weekly basis via emails and phone. Bot has acknowledged that the cyber risks should be addressed more proactively within the organisation in the near future.

Although the composition of the BoT is sufficient and appropriate, there is an opportunity to add value to the role by including experienced financial person to the BoT.

f) Is there a decision order that adequately ensures segregation of duties in regard to authorization of payments, different roles and responsibilities within the organization?

The authorities and responsibilities within IBON are described in the Procedures Manual. The ED has signature rights for all contracts. The ED approves all travel by IBON staff and all procurements. As stated in the financial management responsibilities, the Accountant shall ensure that all financial transactions are completely supported with source documents. Expenses are reviewed by the Finance Manager and approved by the ED. In the absence of the ED, the Deputy Director has the authority to approve expenses. The Finance Manager has the authority to approve disbursements out of petty cash for expendable supplies and other small purchases.

We reviewed a sample of expenditure vouchers to check the existence of voucher materials and whether the vouchers were certified and approved according to IBON's financial guidelines. We also reviewed whether the necessary supporting documentation was attached to the vouchers in order to justify the bookkeeping transactions. In our sample check of expenses, some deficiencies were noted in the supporting documentation related to incur costs. In some cases, the supporting documentation attached to the expenditure voucher did not include proper justification for the expense, such as the reason for travelling (Travel Authorisation Form), meeting agendas, etc. The Procedures Manual states that a member of staff scheduled to travel for official purposes shall secure a Travel Authorization from his or her supervisor. The Travel Authorisation Form (which is an appendix of the Procedures Manual) shall include the agenda/purpose of travel, its justification as well as the party(ies) with whom the staff is expected to meet, and the travel dates with the complete travel itinerary and activity schedules. The audit trail from individual expense vouchers to the recorded expenses was missing in some cases and the information about how expenses in local currency were converted into reporting currency (US dollar) was not always clearly documented.

Recommendation

All financial transactions recorded must have proper supporting documents attached in order to verify the nature and validity of the expense/payment. If part of the supporting documentation is filed elsewhere, the filing location of the supporting documentation

should be included in the expenditure vouchers and the proper filing period of all supporting documentation should be ensured. IBON is recommended to ensure a proper audit trail for all bookkeeping transactions. The authorisation and approval procedures should be adhered to in full.

- g) Is there an office manual or equivalent stipulating rules and policies in regard to travel advances, other types of advances, petty cash, inventories, per diem level, routines for credit cards and payments, etc.? Do these rates and rules seem reasonable? Are travels with business class allowed, and what levels of per diems are applied? Is it stipulated what standard of accommodation can be used for workshops and travels? Funding agencies?**

The IBON Procedures Manual stipulates the general rules and policies for administrative and financial procedures. The guideline is supported with a standard set of templates, such as a Travel Authorisation Form and Cash Advance Liquidation Form.

Travelling and Advances

The guidelines for travelling clearly state that air travel shall be made with the most economical airfare unless there are requirements that cannot be covered by the most economical flight (i.e. length of transit would affect the work of the staff, security reasons, etc.). Business class tickets are not allowed. To cover land transportation costs, in-transit meals, unsubsidized meals, and other incidental expenses, staff are entitled to a travel allowance that does not need to be reconciled. The travel allowance is a fixed sum depending on the destination but irrespective of the duration of travel (Asia USD 100, Non-EU countries including OECD members, Africa, Latin America and the Caribbean USD 200 and Europe EUR 200). According to the Procedures Manual, in cases where the allowance is not enough to cover the duration of the trip, the traveling staff member can request a cash advance for anticipated costs instead of the regular travel allowance.

The cash advance request should be supported by a detailed projection of anticipated expenses and must be endorsed by the Program Manager/supervisor for approval by the ED. Within one week after the travel, the staff member should submit a liquidation report of the cash advance together with the official receipts and other supporting documents.

Other types of cash advances are allowed but shall be processed only when required documentations are complete, and when the request has been approved by the ED. Cash advance liquidation reports should be submitted to the Finance Unit within five working days after the end of the activity and be supported by proper documents such as official receipts, invoices, acknowledgment receipts and other valid supporting documents. The salary of any staff member with an unliquidated cash advance will automatically be withheld if he or she fails to liquidate within the designated period, unless there are valid reasons for the delay. As of 31 December 2017, the amount of open advances to staff totalled USD 2,921.

When the travel is connected to a certain project activity, per diems are used to cover hotels, meals and local transportation expenses. The same per diem amount is paid to both funded participants and IBON staff attending the activity. In this case, a separate

travel allowance is not provided to participating staff. The amount of per diem varies depending on the policy of the project donor and the country where the activity will be held. The rates are reviewed by the finance team to verify that they will cover all expenditures and the rates may be adjusted if necessary and justified.

Petty Cash and Credit Cards

According to the Procedures Manual, IBON maintains a petty cash fund of PHP 10,000. At the end of financial year 2017, the amount of petty cash according to the financial statements was USD 202 (the accounting currency of IBON is USD) which corresponds to approximately PHP 10,000. The bank account and petty cash reconciliations are performed on a monthly basis. At the end of 2017, IBON programme managers were provided corporate credit cards. The internal guidelines of IBON however, do not have any guidelines for the use of credit cards.

Inventory of Physical Assets

IBON only has physical assets such as computers/laptops and office furniture. The organisation has established a list of the fixed assets and performs an inventory of physical assets twice a year, as defined in the Procedures Manual.

Recommendation

IBON should consider using standard daily rates for travel allowances per country/continent, and not a fixed sum per destination.

IBON should establish guidelines for the use of credit cards.

4.2 Conclusions

The management structure is adequate and it has clearly defined roles, authorisations and authorities for an organisation of this type and size. The BoT has sufficient and relevant competence for an organisation of this type and size.

The financial tasks and responsibilities within the organisation are clearly documented and ensure adequate segregation of duties in regard to authorization of payments and other standard procedures. However, we recommend that all policies should include a version number, date of last revision and policy owner.

Some deficiencies in supporting documentation were noted during the review. The organisation is recommended to ensure that all financial transactions are approved according to the internal guidelines and supported with sufficient justifying documentation.

IBON has established clear internal guidelines for core administrative and financial procedures. The policies, however, lack guidance regarding acceptable expenses for accommodation and the use of credit cards. If the guidelines lack details on acceptable rates for travel expenses and credit card usage, there is a risk of inappropriate use of funds.

5 Risk Management

5.1 Observation and Analysis

a) **Are risk analyses performed regularly, and are there routines for identifying, analysing and taking risk reducing measures?**

IBON recognises that it is exposed to certain risks due to the nature of its activities and the environment in which it operates. In order to fully understand such risks, IBON has established a Risk Management Policy that provides the framework for how risk should be managed within the organisation. This risk management process is an integral part of its governance and management systems. Risks are regularly discussed and assessed at all levels in the organization. All risks were reviewed at the beginning of this year by the ManCom.

Based on our review, the model for risk management enables risks to be evaluated on a consistent basis.

b) **What risks has the organization identified for its operations?**

IBON has identified nine risks for their operations of which here are presented seven major risks:

Risks

Unsuccessful transition from the previous to the incoming director.

IBON operations (including HQ and travel of officers) might be hampered by the repressive environment; partners in other parts of the world may not be able to implement activities.

IBON and hosted networks' advocacy and policy engagement may not have the same level of importance in arenas that promote the private sector in development.

CPDE may not be able to raise the same level of funding in a timely enough manner to avoid disruption.

Programmes and regions remain dependent on core funds.

Failure to get new staff on board in time; human resources not able to cope with the workload.

IBON loses credibility to operate and manage international programmes because of ICT challenges.

The risks are allocated a likelihood and impact rating. All the risks are also given a prioritisation of low, medium or high and a response plan. The first two risks are rated as medium, and the rest are rated low.

In 2017, IBON also conducted a risk analysis for the CPDE Programme. IBON identified ten risks for CPDE, of which the first four are rated medium and the rest are low.

CPDE risks

ODA and development cooperation perceived to be losing relevance in new financing modalities.

Global Partnership for Effective Development Co-operation (GPEDC) loses relevance and Busan commitments will be disregarded and cease to be implemented.

GPEDC and other policy making bodies at different levels ignore or only give token recognition to the policy proposals of CSOs.

CPDE activities are not implemented because of the socio-political conditions in countries.

The economic crunch puts more pressure on CSOs to invest more time and effort in immediate and direct poverty reduction actions rather than indirect but necessary longer term and sustainable development impacts of development cooperation policy engagement.

CPDE advocacy and policy engagement may not have the same level of importance in arenas that promote the private sector in development.

CPDE may not be able to raise the same level of funding for the next period.

Consensus building may be difficult to achieve because of the increasing number and diversity of members in the platform.

CPDE will not be able to monitor Effective Development Cooperation advocacy by members because of the increased scope of operations.

Members are not able to fully participate because of challenges in speaking and technical language.

c) Does the organization have sufficient staffing regarding resources, competence and professional knowledge in order to be able to work preventively and proactively with different types of risks?

In our opinion, there is an appropriate and sufficient staffing level regarding resources, competence and professional knowledge. The management structure as outlined in Section 4.1d presents an appropriate structure with defined positions and reporting lines.

5.2 Conclusions

The ManCom as well as the rest of the staff are aware of the different risks within the organisation. Based on interviews and a review of the policy and documented measures, it is our view that IBON has sufficient staffing regarding resources, competence and professional knowledge in order to be able to work preventively and proactively with different types of risks.

6 Anti-Corruption

6.1 Observation and Analysis

- a) **Is there an anti-corruption policy or has the organization in other ways manifested that they work proactively against corruption? Are there satisfactory routines and systems for preventing, detecting and taking measures on fraud and corruption? Does the organization have documented ethical guidelines or a code of conduct policy?**

The Procedures Manual includes an Anti-Corruption Policy with general guidelines as well as definitions of conflict of interest, restricted activities and whistleblowing. Our review indicates that policies are communicated to staff members at the start of employment and through staff meetings. Interviews show that staff members are aware of the policies and there is a commitment to conduct business in accordance with ethical and legal standards.

However, the manual does not include staff responsibilities or internal procedures to be taken in the case of suspected fraud or corruption. In our opinion, the description is very limited and should be specifically focused on the whistle blower mechanism and how it works in practice. This should include, for example, a contact person and method of contact (such as a secure email address and/or phone number), the internal steps to be taken for an investigation, and the required documentation. The initial report can be made to the staff members' line manager. However, another confidential contact should be offered to all staff members and the informant should be protected.

Recommendation

The Procedures Manual should be updated to reflect the practical steps that make up the whistle blower mechanism. This should include a contact person and method of contact (such as a secure email address and/or phone number), the steps to be taken for an investigation, and the required documentation.

- b) **According to the organization, have any corruption cases occurred and, if so, how have they been handled by the organization?**

According to interviews, no actual or alleged corruption cases have ever been identified. Nevertheless, the risk of corruption is present in some levels of IBON and this is why the subject is important in terms of awareness.

c) What corruption risks have been identified during the assignment by the consultant that Sida has procured for this review?

Based on our review, corruption risk exist within the areas of forwarding of funds and procurement. IBON works in order to ensure that received funds are spent correctly, transparently and in accordance with donors' requirements. Interviews indicate the organisation requires the highest standards of ethical and professional conduct from its staff members and stakeholders. In the context in which IBON operates, the risk of corruption is relatively small, since the sub granting and money transfers are done in small instalments and upon receipts.

6.2 Conclusions

An anti-corruption policy framework exists within IBON's Procedures Manual. However, improvements should be made to describe the whistle blower mechanism. No corruption cases or suspicions have been identified during IBON's existence.

Our interviews indicate that staff members are aware of the policies. Our review also indicates that policies are communicated to staff through induction and trainings. IBON also ensures the implementation of fraud and anti-corruption measures through regular communication and risk assessments.

7 Audit, Procurement and Financial Management

7.1 Observation and Analysis

- a) **Is the organization audited according to national rules and regulations applicable to the legal form of organization that it is. What type of audit is it (ISA, national standard, assurance engagement, agreed upon procedures)? Does the organization follow-up on weaknesses identified in the audits in a systemized way? Is the auditor external, independent and qualified? How many years has the audit firm been auditing the organization?**

IBON is audited by a local external auditor in accordance with national auditing standards (Philippine Standards on Auditing). The current auditor, Marichu I. Carpio & Co, is qualified with a CPA authorisation and has been auditing IBON since 2015. IBON also carries out project specific audits. The Sida-funded projects "Enhancing Civil Society Role in Development Partnerships Post 2015" (CPDE) and "Sustaining Civil Society Advocacy on Effective Development Cooperation Bridge Fund" (Bridge Fund) are audited annually by an external auditor, SyCip Gorres Velayo & Co, which is an affiliate of Ernst&Young. The project audits are also conducted in accordance with national auditing standards. SyCip Gorres Velayo & Co has been auditing the projects of IBON since 2009, but the responsible auditor has been rotated during this period. The CPDE and Bridge Fund audit reports for the reporting period ended 30 April 2018 were unqualified. Both auditors have provided annual management letters of the audit findings and recommendations to improve the accounting and internal control systems of IBON. Prior year findings are systemically followed-up in the next year's management letter.

The management letter concerning the annual audit of IBON included two observations: cash advances had been liquidated late and liquidation reports had insufficient supporting documentation. In the management letters concerning the project audits, the auditor identified a few internal control deficiencies and opportunities for improvement. The deficiencies were already noted during the previous year's audit and still remain valid. The auditor noted liquidation reports without sufficient supporting documents and without proper signatures of the preparer, reviewer and approver, as well as failures to submit liquidation reports in a timely manner. The auditor also recommended that IBON evaluate its cybersecurity capabilities and ensure compliance with the local legislation (Data Privacy Act and its implementing rules and regulations).

IBON has not gathered the issues and recommendations from different audits into a summary table with management responses and an action plan.

Recommendation

IBON should establish and document follow-up procedures for audit observations and recommendations (an audit log) with management responses, an action plan and status update. The status of the audit log should be reported to the BoT on an annual basis.

- b) Is there a procurement policy that includes adequate rules and regulations to manage planned procurement in compliance with applicable regulations? Sida's procurement rules for NGOs can be used as a comparison. Check adherence to the procurement policy by reviewing a couple of procurements.**

IBON has established guidelines for different types of procurements and documented the procurement procedures in its Procedures Manual. If the procurement is done with donor funding, the specific rules of the donor are adhered to. The Administrative Unit reviews the availability of budget and implements the proper procurement procedure. The Finance Unit reviews the quotations/tenders received and endorsed by the Administrative Unit. All procurements are approved by the ED. The Procedures Manual defines monetary thresholds for different types of procurement procedures. For procurements with an estimated value below PHP 20,000 (approximately EUR 320), quotations from at least two suppliers/contractors are required. Procurements with an estimated value of PHP 20,000 and above require a quotation/proposal from three suppliers.

According to the procurement guidelines of Sida, service contracts above EUR 60,000 and less than EUR 300,000 shall be awarded by means of a competitive negotiated procedure without publication, in which the implementing organisation consults at least three service providers of its choice and negotiates the terms of the contract with one or more of them. Contracts of goods above EUR 100,000 and less than EUR 300,000 shall be awarded by means of an open tender procedure published locally. During the financial year ended 31 December 2017, IBON did not have any procurements of services above EUR 60,000 or goods above EUR 100,000.

Based on our review of sample procurements, it was noted that the selection of external consultants has not been systematically or clearly documented. The selected procurement method, or an explanation of why the contracted consultant was chosen, is not systematically documented.

Recommendation

IBON is recommended to tender possible service contracts between EUR 60,000 and less than EUR 300,000 and establish a list of approved/preferred vendors/service providers and use these as a first choice.

- c) Does the organization have an accounting software that allows for adequate accounting records for an organization of its size and operations? Is project accounting possible in the accounting software? How does the organization work with budget analysis and budget follow-up?**

The Head of the Finance Unit has a responsibility for the overall management of IBON financial operations and the Accountant is responsible for daily bookkeeping. The bookkeeping of IBON is currently carried out in an accounting software called QuickBooks, which allows adequate accounting records for the organisation. The organisation has used the current accounting software for five years. The accounting software allows project accounting and financial reporting of projects on different levels

(grant, project, donor, activity). IBON complies with a modified cash basis of accounting (revenue is recorded on a cash basis, but expenses are accrued).

The Procedures Manual includes guidelines for financial reporting. According to the guidelines, the Finance Unit submits quarterly financial statements to the Management Committee and yearly audit reports to the donors. The Finance Unit prepares reports that follows the approved budget by extracting relevant expenses from the accounting system. The quarterly financial reporting submitted to the ManCom includes cumulative actual expenses compared with the budget. Regarding the programme reports, an explanation of any variances is also prepared and submitted to donors.

7.2 Conclusions

IBON engages external auditors to provide audit reports on IBON as an organisation and on donor funded projects. IBON has not established a systematic procedure and documented follow-up of audit observations and recommendations.

IBON has an established procurement guideline that outlines the general procedures for procurements. IBON has not however establish a list of approved/preferred vendors/service providers.

The current accounting software used by IBON is adequate for the reporting needs of the organisation. IBON has set up adequate routines to follow-up its financials and budget realisation. Financial reports are prepared regularly for the management and the financial status of the organisation is presented in Board meetings. IBON management monitors the budget outcome at the organisational level regularly and possible budget deviations are analysed.

8 Forwarding of Funds/ Sub-Granting

8.1 Observation and Analysis

- a) **Does the organisation assess the recipient organisations capacity in regard to competence, resources, internal management and control and work on anti-corruption, and if so, in what way? Are these assessments documented?**

IBON forwards funds mainly under the CPDE programme to implementing partner organisations. These organisations are evaluated by the Regional and Sectoral Coordinating Units of the CDPE network during the inception phase of the programme using criteria established by the EU. No other documented assessments of the recipient organisations have been prepared.

- b) **Are there signed agreements between the organisation and its partner organisations? Are the rights and obligations of the recipient partner organisations stipulated in the agreements? Are the agreement requirements in accordance with what is stipulated in the agreement between Sida and the organisation?**

IBON has established a standard memorandum of understanding (MoU) template that is used to formally enter into sub-granting relationships with the implementing partner organisations. The agreement indicates the rights and obligations of both parties, the purpose of the sub-grant, the use of the funds, disbursement schedule and specific reporting requirements. The MoU emphasizes effective management of funds, consistency with the submitted budget plan, and adherence to EU standards and policies of anti-corruption and conflict of interest. According to the MoU, allocated funds shall be used in compliance with all applicable anti-terrorist financing and assets control laws, regulations, rules and with respect to international conventions in which Sweden, Ireland, Canada, Finland or Austria is a signatory. According to the MoU, all procurements need to comply with the standards set by the EU and Sida and shall consequently govern all related sub-contracts entered into by the implementing organisation.

We reviewed a sample of sub-grant MoUs that IBON has signed with its implementing partner organisations. The reviewed MoUs included the fundamental requirements, including the purpose of the sub-grant, the use of funds, disbursement schedule and specific reporting requirements. The agreements were signed by a representative of IBON and the recipient organisation. The MoU specifies that the implementing organisation shall retain supporting documents for at least five years. However, the grant agreement between Sida and IBON (Agreement on funding for own contribution to EU-funded project between Sida and IBON International on behalf of the CSO Partnership for Development Effectiveness (CPDE) 2016-2018) stipulates that IBON shall allow Sida to carry out verifications by examining supporting documents for up to seven years after the payment of the balance. Therefore, all project-related accounting documents should be retained for the same period of time.

Recommendation

IBON is recommended to align the terms in its partner MoUs with the Sida terms regarding the retention period of project-related accounting materials.

c) What financial and results reporting requirements including audits, does the organisation place on its recipient organizations? Are eventual findings and weaknesses in the audit reporting from recipient partner organizations followed-up by the organization in a systematic and documented way?

Based on our review, sub-grantees are required to provide interim and final financial and narrative reports. The MoUs include Guidelines for Report Preparation as an attachment. The reporting guidelines include instructions for supporting documentation, guidance on the reporting content and templates for the narrative and financial reports. Financial reports should be supported with all relevant receipts and invoices.

According to the MoUs, 70% of the funding will be transferred upon signing the MoU and related documents, 20% upon review and approval of the interim report, and the remaining 10% after the release of the CPDE/Bridge Fund audited financial report. According to interviews, some partner organisations fail to provide interim financial reporting and submit only final financial reports. The MoU does not include any audit requirement for the partner organisations. The implementing organisations are required to provide IBON with all the supporting documents for their reported expenses and these expenses are audited as part of the whole project audit.

IBON has established a grant monitoring tool through which the status of each sub-grant agreement is tracked. The monitoring tool includes information on each sub-grant agreement, estimated start and ending dates, MoU signing date, amounts and dates of fund disbursements, and dates when required reporting is received. The narrative reports are reviewed by the Planning and Monitoring Officer and the financial reporting is reviewed by the Finance Unit. IBON does not have guidelines or a routine/checklist for the review of reporting received from the partner organisations. The monitoring tool does not document who performed the review or if any issues were noted during the review.

We reviewed final financial reporting received from five implementing partner organisations for the reporting period ended 30 April, 2018 and the related expense recordings. The review of these reports by IBON staff is not documented. It was noted that four of the five reviewed partners did not use the financial reporting template provided by IBON. One of the partners did not provide any supporting documentation to justify the reported expenses, and yet these had been expensed in the project accounting and cleared from advances. The audit trail from individual expense vouchers to reported expenses in three partner reports were partly missing. The reports did not include information about how expenses in local currency were converted into US dollars. In addition, some expenses were not supported with sufficient supporting documentation or justifications.

According to interviews, some implementing partner organisations have failed to comply with the reporting schedules stipulated in the MoUs, which has subsequently caused late submission of project reporting by IBON to the donors.

Recommendations

IBON is recommended to establish guidelines and a check-list/routine for the review of partner reporting and to document the review performed.

IBON should ensure the validity of the financial reports received from partner organisations and demand a proper audit trail from the expenditure vouchers to the financial report. Reported expenses without proper supporting documentation should not be recorded as an expense of the project.

IBON should establish procedures that will ensure it is able to report to donors in a timely manner.

8.2 Conclusions

The evaluation of partner organisations is done during the inception phase of the project based on criteria set by the EU. IBON has signed agreements with third parties stipulating rights, obligations and reporting requirements. These are consistent with the agreement with Sida except for the retention period of project documentation.

KPMG noted deficiencies in the financial reporting and supporting documentation received from partner organisations.

IBON has not established guidelines for reviewing partner reports or documented procedures for reviewing and approving the reporting received from partner organisations.

The terms of the grant agreement between IBON and the donors have not been complied with due to delays in receiving partner reports.

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