Raise for Development and Humanitarian Aid RDHA Internal Control System: A Comprehensive Framework for Integrity and Accountability

Introduction

RDHA recognizes that an effective internal control system is not merely a procedural requirement, but a fundamental pillar for ensuring integrity, transparency, and the protection of resources in the complex and sensitive context of humanitarian and development work. This system has been meticulously designed to align with international best practices and sound governance standards for non-profit organizations, while considering the specific requirements of donors such as Medair.

1. Core Objectives of the Internal Control System

RDHA's internal control system is built upon three pivotal objectives, working in concert to foster trust and efficiency:

- **Asset Protection:** The primary and most crucial objective is to safeguard all organizational assets, whether monetary, in-kind (such as supplies and equipment), or informational. This is achieved through the application of stringent controls that prevent misuse, embezzlement, theft, or damage. This includes protecting physical assets through robust security measures (e.g., securing warehouses and offices), safeguarding financial assets through expenditure controls and accurate recording, and protecting sensitive data through secure IT systems and regular backups.
- **Ensuring Accuracy and Integrity of Financial and Operational Data:** The system aims to ensure that all financial and operational records are accurate, complete, and reliable. This guarantees that financial reports precisely reflect the organization's true status, are free from material errors, and are auditable and verifiable by both internal and external parties. Data accuracy supports sound and informed decision-making and provides a strong basis for accountability to donors, partners, and beneficiary communities.
- **Promoting Compliance with Standards and Regulations:** The system commits RDHA to adhere to all relevant local and international laws and regulations, in addition to specific donor requirements (such as Medair). This includes compliance with the organization's internal policies, internationally accepted accounting standards, and transparent reporting requirements. This commitment significantly reduces legal and financial risks and enhances the organization's credibility and good reputation.

2. Key Components of the System: An Integrated Framework

RDHA's internal control system relies on an integrated model comprising five main components that work interdependently to ensure overall effectiveness and control over all aspects of operations:

A. Control Environment

The control environment is the foundation upon which all other controls are built. It reflects the organization's ethical values, the competence of its employees, management's philosophy, and its governance structure, forming the overall climate in which control is exercised.

- **Ethical Values and Policies:** RDHA is committed to fostering a culture of integrity, transparency, and accountability at all its organizational levels. This is achieved through:
    - o **A Clear and Detailed Code of Conduct:** This code defines the ethical and behavioral standards expected from all employees, collaborators, and partners. It is widely distributed and explained in orientation sessions to ensure universal understanding and commitment.
    - o **Anti-Corruption and Anti-Fraud Policies:** Written and detailed policies outlining the procedures for preventing, detecting, and responding promptly and effectively to any suspected cases of corruption and fraud. These policies include mechanisms for reporting, escalation, and investigation.
    - o **Ethics Officer:** The appointment of an individual or a specialized committee (e.g., an Ethics Committee or Audit Committee) responsible for overseeing the implementation of the Code of Conduct and anti-corruption policies. This officer or committee is tasked with receiving complaints related to ethical violations, investigating them with utmost confidentiality and impartiality, and providing recommendations to management. This role enhances the culture of accountability and transparency and encourages reporting of any improper practices.
- **Organizational Structure and Segregation of Duties:** Proper segregation of duties is a cornerstone of a strong control environment, as it prevents any single individual from having complete control over a financial or operational transaction from start to finish, significantly reducing the opportunities for fraud and error. At RDHA, strict segregation of duties is applied among the following roles to ensure mutual oversight:

- **Authorization:** The person or entity authorized to approve a financial transaction (the Executive Director for expenditures within their authority, or the Board of Directors for large expenditures).
- **Recording:** The person responsible for entering the transaction into accounting records or databases (Project Accountant or Cashier).
- **Custody:** The person responsible for holding physical or monetary assets (Storekeeper for materials, or Cashier for cash).
- **Reconciliation/Verification:** The person who verifies the accuracy of the transaction and its conformity with records and supporting documents (Internal Audit Officer or Monitoring and Evaluation Officer who performs data reconciliation).
- For example, the person who approves a purchase order may not be the same person who receives the goods or records the payment in the accounting ledgers, ensuring continuous internal verification.

B. Risk Assessment

This process involves identifying potential risks that may hinder the achievement of the organization's objectives, analyzing their likelihood and impact on operations, and then developing effective strategies to mitigate or address them.

- **Risk Identification:** RDHA conducts periodic and systematic risk assessments to identify all potential threats the organization may face. This includes analyzing risks from multiple perspectives:

  - **Financial Risks:** Such as embezzlement of funds, material accounting errors, insufficient project funding, exchange rate fluctuations, or poor cash management.
  - **Operational Risks:** Such as IT system failures, interruption of essential supplies, inefficient or insufficient staff, delays in implementing field activities, or supply chain issues.
  - **Compliance Risks:** Non-adherence to donor regulations or local laws, or violation of the organization's Code of Conduct or protection policies.
  - **Reputational Risks:** Loss of trust from donors or beneficiary communities due to mismanagement, corruption, or failure to achieve objectives.
  - **Security Risks:** Security challenges in operational areas, which may affect the safety of staff and assets and the ability to access beneficiaries.

- **Risk Mitigation Plan:** For each identified risk, a response plan is developed that includes specific controls and procedures to reduce its likelihood or minimize its impact if it occurs. For example:

- For IT system failure risks: Daily backups of financial and operational data are stored in multiple secure locations (physical and cloud), with regular data recovery testing.
- For embezzlement risks: A dual authorization system is applied to all large payments, independent monthly bank reconciliations are performed, and cash records are periodically reviewed.
- For security risks in operational areas: Detailed security contingency plans are developed, extensive training is provided to staff on safety and security protocols, and a specialized security officer is appointed to monitor the situation and assess threats.

C. Control Activities

These are the specific procedures and policies implemented to ensure that management directives are carried out and identified risks are effectively addressed. These activities serve as the first line of defense against errors and fraud.

- **Financial Controls:**

  - **Expenditure Limits and Approvals:** Clear and documented levels of authority are established for expenditure approvals. For instance, expenditures exceeding $5,000 USD require prior approval from the Board of Directors, while smaller expenditures require approval from the Executive Director or Finance Manager, with all approvals documented in writing or electronically.
  - **Dual Authorization:** Two authorized individuals (e.g., the Finance Manager and the Executive Director) must sign all large checks or bank transfers. This provides an additional layer of security and reduces the risk of manipulation.
  - **Budget vs. Actual Expenditure Review:** Monthly and regular reviews are conducted to compare planned budgets with actual expenditures for each project and line item. Any significant variances (over or under) are identified and investigated immediately to understand the causes and take corrective actions.
  - **Periodic Reconciliations:** Accurate monthly bank reconciliations are performed to match bank statements with the organization's records. Supplier and customer reconciliations are also conducted regularly to ensure the accuracy of balances.
  - **Physical Controls:** Physical assets such as inventory and equipment are secured through safe storage in protected warehouses, periodic inventory

counts (monthly or quarterly), and clear assignment of responsibilities for their custody and maintenance.

- **Cash Management:**

  - ➤ **Detailed Cash Register:** All incoming and outgoing cash transactions are recorded in a detailed daily cash register, including all necessary data (date, amount, purpose of transaction, recipient's name, and receipt number).
  - ➤ **Signed and Documented Receipts:** Signed and documented receipts must be attached to all cash payments, providing conclusive evidence of the transaction and facilitating the audit process.
  - ➤ **Cash Box Limits:** A maximum limit is set for the amount of cash that can be held in the cash box (safe), and any amount exceeding this limit must be deposited in the bank regularly (daily or weekly, depending on the volume of transactions).
  - ➤ **Surprise Cash Counts:** Surprise cash counts are conducted periodically by an independent employee not responsible for the cash box, to ensure that the actual balance matches the records.

D. Information and Communication

Relevant information must flow in a timely manner to the right people for effective decision-making, ensuring transparency and accountability at all levels.

- **Periodic Reports:** Regular financial and operational reports are prepared and submitted to all management levels and the Board of Directors, to ensure transparency and informed decision-making. For example:

  - ➤ **Monthly Cash Flow Report:** Sent to the Board of Directors and Executive Director to assess liquidity, monitor expenditures, and identify any financial challenges early.
  - ➤ **Quarterly Project Progress Reports:** Include key performance indicators (KPIs), actual expenditure versus budget, completed activities, challenges, and future plans.
  - ➤ **Comprehensive Annual Reports:** Include audited financial statements, detailed summaries of annual activities and achievements, and impact assessments.

- **Whistleblowing Channels:** Establishing a confidential and secure system for employees and external parties (such as beneficiaries and suppliers) to report any

financial irregularities, fraud, corruption, or violations of the Code of Conduct or protection policies without fear of retaliation or discrimination. These channels must be independent and accessible to all, ensuring prompt and impartial investigation of all reports and protection for whistleblowers.

E. Monitoring

Monitoring is an ongoing process of assessing the quality of the internal control system's performance over time, and ensuring its continued effective and efficient operation.

- **Internal Audit:** Quarterly reviews are conducted by an independent internal audit committee or internal audit department. Internal auditors evaluate the effectiveness of financial and operational controls, identify weaknesses, and provide actionable recommendations for improvement. Internal auditors must be completely independent of the activities they review to ensure objectivity and impartiality.
- **Annual Evaluation and Effectiveness Testing:**

  - A comprehensive annual evaluation of the entire internal control system's effectiveness is conducted, reviewing all five components.
  - The effectiveness of controls is tested through simulating potential fraud or error scenarios, to assess the system's ability to detect and prevent them.
  - External audit reports (if any) are utilized to assess the adequacy of internal controls and address any weaknesses identified by external auditors.
  - Previous recommendations are reviewed, and corrective actions are ensured to be implemented.

3. Implementation Tools: Enhancing Efficiency and Standardization

To ensure the effective and smooth implementation of the internal control system, RDHA relies on a set of practical tools that enhance efficiency and standardization across all operations:

- **Advanced Accounting Software:** Utilization of integrated and reliable accounting software. This software allows for:

- ➢ **Connecting Branches and Field Offices:** Ensuring direct and effective communication between central offices and field branches, which unifies data and enhances transparency across all locations.
- ➢ **Automated and Accurate Reporting:** Generating financial reports automatically with high accuracy, which reduces human errors and saves valuable time.
- ➢ **Real-time Expenditure and Revenue Tracking:** Providing immediate insight into the financial status of the organization and its projects.
- ➢ **Implementing Access and Authorization Controls:** Defining different levels of access and authorization for users, ensuring that each employee can only access the information and functions necessary for their role.

- **Standardized and Documented Forms:** Development and use of a standardized set of forms for all financial and administrative transactions and procedures. This ensures consistency in documentation, ease of review, and compliance of all employees with specified procedures. Examples of essential forms:

  - ➢ **Payment Request Form:** Used for all payment requests, and must be accompanied by necessary supporting documents such as invoices, purchase contracts, or work orders, with approval signatures.
  - ➢ **Purchase Order Form:** Used to document all purchases and their approvals before committing to expenditure, ensuring transparency in the procurement process.
  - ➢ **Monthly Bank Reconciliation Form:** Used for regular reconciliation between bank statements and the organization's records to ensure the accuracy of balances.
  - ➢ **Inventory Records:** Standardized forms for tracking inventory movement (in and out) and conducting periodic physical counts of materials and equipment.

4. Training and Capacity Building: Investing in Human Competence

The human element is crucial for the success of any internal control system. Therefore, RDHA places significant emphasis on continuous training and capacity building to ensure employees understand their roles and responsibilities in maintaining a strong control environment:

- **Annual Training Workshops:** Organizing regular and comprehensive workshops for all employees at various levels. These workshops focus on:

➢ Explaining internal control policies and procedures and their importance in protecting the organization and its resources.
➢ Increasing awareness of fraud and corruption risks, how to detect warning signs, and the correct procedures for reporting them.
➢ Training employees on the effective use of approved accounting and administrative tools and software.
➢ Clarifying each employee's role in maintaining a strong control environment and how their work contributes to achieving the organization's objectives.

- **Surprise Tests and Simulations:** Conducting surprise tests or simulations of specific scenarios (e.g., fictitious payment requests, or unauthorized access attempts to systems) to measure the system's responsiveness and the extent of employee adherence to controls. These tests help identify potential gaps in the system or in employee understanding, and provide opportunities for targeted training to address these gaps.

6. Why do we adopt this system at RDHA?

- **Flexible and Adaptable:** This system is designed to be flexible enough to adapt to multiple projects of varying sizes, whether small or large, without requiring a significant increase in operational costs. It can be expanded or adapted to suit the changing needs of the organization or the requirements of new projects, ensuring continuity of control.
- **Compliant with Donor Requirements:** This comprehensive system meets the stringent conditions of reputable international donors such as Medair, the United Nations, and other government agencies. This compliance enhances RDHA's opportunities to secure funding and makes it a reliable partner.
- **Reduces Risks and Enhances Trust:** By implementing strong and effective controls, the system significantly reduces financial and operational risks that the organization may face. It also demonstrates the organization's commitment to accountability and transparency, which builds and strengthens trust with partners, donors, and beneficiary communities, reflecting RDHA's commitment to delivering humanitarian assistance with the highest standards of integrity.