Rafaqat Mansha Mohsin Dossani Masoom & Co.
Chartered Accountants

PRE-AWARD ASSESSMENT REPORT
of
Marie Stopes Society (MSS)

For United States Agency for International Development (USAID)
Pakistan

January 11, 2013

CONDUCTED BY: RAFAQAT MANSHA MOHSIN DOSSANI MASOOM & CO
CHARTERED ACCOUNTANTS

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List of Acronyms

ADS	Automated Directives System
AIDAR	USAID Acquisition Regulations
ASP	Assessment and Strengthening Program
CAN	Community Advocacy Network
CFR	Code of Federal Regulations
CD	Country Director
CDF	Country Director Finance
CYPs	Couple Year Performances
DRP	Disaster Recovery Planning
DFID	Department for International Development
EPLS	Excluded Parties List System
FAR	Federal Acquisition Regulations
FBR	Federal Board of Revenue
FP	Family Planning
GAAP	Generally Accepted Accounting Principles
GB	Governing Body
GIN	Goods Issue Note
GRN	Goods Received Note
HR	Human Resources
IAS	International Accounting Standard
IFRSs	International Financial Reporting Standards
IR	Intermediate Result
IWAC	
MCH	Mother & Child Health
MDT	Medical Development Team
M & E	Monitoring and Evaluation
MSS	Marie Stopes Society
MSI	Marie Stopes International
NEP	National Expansion Program
NGO	Non-Governmental Organization
OMB	Office of Management & Budget
PECHS	
PO	Purchase Order
PR	Purchase Requisition
QA	Quality Assurance
RAF	Research and Advocacy Fund project
R & M	Research and Matrix
RMDM	Rafaqat Mansha Mohsin Dossani Masoom & Co.
RSPN	Rural Support Programme Network
SF	Social Franchise
SIFPO	Support for International Family Planning Organizations
SRHmatters	Sexual & Reproductive Health Matters
USAID	United States Agency for International Development
US	United States
VCT	Voluntary Counseling and Testing
YAN	Youth Advocacy Network

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ASSESSMENT REPORT

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Mr. Ejaz Rahim
Chief of Party
ASP-RSPN
Islamabad, Pakistan.

Private & Confidential

January 11, 2013

PRE-AWARD ASSESSMENT REPORT OF MARIE STOPES SOCIETY (MSS)

We have made a review and evaluation of the managerial capacity and internal control system of MSS using the criteria established by ASP-RSPN per USAID standards. Our review included tests of compliance with the organization's stated procedures to the extent that such testing was deemed necessary and feasible. Our review is not an audit of any financial statement(s) prepared by MSS.

Management responsibility

The management of MSS is responsible for establishing and maintaining systems of internal controls and financial management. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with Generally Accepted Accounting Principles. We understand that the objectives of such financial management, internal controls and related practices, policies & procedures comprehend in USAID's criteria is to provide similar assurance.

Opinion

Based on this knowledge and the review and evaluation conducted by us, we believe that MSS's current policies and procedures are sufficient for USAID/ Pakistan's purposes, assuming satisfactory compliance, except for the conditions described in paragraphs below which we believe would be material weaknesses requiring the imposition of 'Special Award Conditions (pre and post disbursement conditions)'. The overall risk is assessed as **'Medium'**.

Further nothing came to our attention that would cause us to believe that, subject to compliance with 'Special Award Conditions (pre and post disbursement conditions)' described below, MSS would not have the managerial, technical, administrative and financial capabilities to carry out the proposed USAID funded activities.

Subject to the fulfillment of the following conditions, advance payment mechanism under USAID regulations is appropriate for USAID's proposed funding to MSS.

SPECIAL AWARD CONDITIONS

Material weaknesses and pre- disbursement conditions:

1. The structure of the GB hinders the performance of associated oversight function

The GB of MSS consists of four members half of which are involved in the day to day operations of MSS i.e. Country Director (CD) and Country Director Finance (CDF). They govern and perform oversight of activities in which they are involved as management function

Pre-Disbursement condition(s)

It should be ensured that before disbursement of USAID funds, the number of non-executive members of the GB be increased so as to enable it to effectively perform its strategic role of oversight of overall operations. Further MSS should adopt a policy on conflict of interest

2. Insufficient frequency of GB meetings

The minimum number of meetings of GB required by the constitution is once in twelve months.

Pre-Disbursement condition(s)

It should be ensured that before disbursement of USAID funds, constitution should be modified to increase the number of mandatory meetings of the GB so as to ensure active involvement and supervision of the overall operations of MSS

3. Policies and procedures not approved by the GB:

The following policies and procedure manuals currently in practice in MSS are not approved by the GB:

- Financial guidelines
- Supply chain manual (Procurement manual)
- HR manual

Pre-Disbursement condition(s)

It should be ensured that before next disbursement of USAID funds, all the policies and procedures manuals and any amendments thereto must be presented before the GB for approval so as to ensure their authorization, authenticity and validity.

SPECIAL AWARD CONDITIONS

Material weaknesses and post- disbursement conditions

1. Delegation of powers from GB to senior management team not documented:

Delegation of powers from the GB to the senior management team are not documented. Senior management team includes CD, CDF and other operational directors of MSS.

Post-Disbursement condition(s)

Delegation of powers from the GB to the senior management team should be documented so as to clearly identify and segregate powers between the GB and senior management team.

2. Independence of Internal Auditor

- As per TOR of the internal audit department, the Head of the Internal Audit Department reports to the Managing Director, currently CD, instead to the GB.
- The Internal Audit Department (financial audit) does not have adequate personnel strength to cover all the operations of MSS.
- No policies and procedures are identified and documented in the form of Internal Audit Manual to provide for a structured approach to cover the processes related with Internal Audit Department

Post-Disbursement condition(s)

It should be ensured that :

- TOR of the Internal Audit Department be changed so as to make the Internal Audit Department reportable to the GB. Further the GB should establish a Internal Audit Committee (consisting of non executive directors) with clear terms of reference to deal with the appointment of internal and external auditors, and take decisions and follow up on the observations of internal and external audits.
- The Internal Audit Department should develop an Internal Audit Manual consisting of such policies and procedures that provide a structured approach to cover the processes related to Internal Audit Department.
- The personnel strength of Internal Audit Department be increased to enable it to cover all the operations of MSS and perform its role effectively.

Rafaqat Mansha Mohsin Dossani Masoom & Co

RAFAQAT MANSHA MOHSIN DOSSANI MASOOM & CO
Chartered Accountants
Islamabad, Pakistan

EXECUTIVE SUMMARY

OVERALL RISK CONCLUSION

The assessment procedures applied in order to reach at the conclusion for each key area resulted in overall **Medium risk** for entity. There are identified capacity gaps that need to be addressed in the long and/or short term to implement USAID program effectively and efficiently.

Key areas assessment analysis that we believe may have a bearing on the criteria (USAID regulations and Generally Accepted Accounting Principles-GAAP) referred to above, are described in detail in section 4 titled: *'key Area Assessment'* of the report. The synopsis of overall risk (medium) as broken down into key areas is given in the following table 1.2.1 "Risk Matrix":

Table 1.2.1: Risk matrix

Entity Level Assessment	Key Issues	Risk Ranking
OVERALL ASSESSMENT OF MSS	MSS has an active governance system. However due to structure of operations half of GB is involved in day to day operations. Key policies and procedures manuals have not been approved by GB. Internal audit function is understaffed to meet the growing operations of MSS and is reportable to CD instead of GB. Financial management is backed by a robust accounting system. Key Procurement forms like GRN and GIN are not pre-numbered. Procurements function is in place, however certain USAID regulations need to be incorporated in procurement polices. Inventory registers are not maintained at central warehouse and service centers. Polices and procedures need to be identified for periodical asset counts, sole source and emergency procurements.	**MEDIUM**

Table 1.2.1: Risk matrix Contd..

S. No	Key Area Assessment	Ranking Description	Key Issues	Risk Ranking	Report Reference (Page No.)
1.	Control environment	Represents a major risk which can be mitigated by adopting a strengthening and restructuring strategy with involvement of the key management and active oversight role of GB and ASP-RSPN.	✓ GB is involved in the day to day operations of MSS i.e. CD and CDF. ✓ Delegation of powers from the GB to the senior management team is not documented. ✓ Policies and procedure manuals currently in practice of MSS are not approved by the GB. ✓ No policies and procedures are identified and documented in the form of Internal Audit Manual. ✓ The head of the Internal Audit Department reports to the CD, instead of GB. ✓ The Internal Audit Department does not have adequate personnel strength to cover all the operations of MSS. ✓ The Internal Audit Department does not perform formal risk assessment procedure which is an important factor in effective internal audit planning. ✓ Some of audit observations and recommendations of prior audits remain unresolved	High Risk	27

Table 1.2.1: Risk matrix Contd..

S. No	Key Area Assessment	Ranking Description	Key Issues	Risk Ranking	Report Reference (Page No.)
2.	Financial management and accounting	Represent a moderate/manageable risk which can be mitigated by strengthening measure incorporated concurrently with implementation.	✓ Mechanism in the form of a comprehensive checklist is not in place that could ensure the allowability and allocability of costs in accordance with the applicable provisions of USAID and US government relating to procurement documents, cost principles. ✓ MSS currently does not maintain separate interest bearing accounts to deal with USAID funds. ✓ Physical access control has not been observed on MSS server room and other premises .	Medium Risk	37
3.	Procurement system	Represent a moderate/manageable risk which can be mitigated by strengthening measure incorporated concurrently with implementation.	✓ Despite being a sub-recipient in a USAID funded project, pertinent requirements of the USAID regulations relating to procurement of goods and services have not been incorporated in the procurement policies and procedures. ✓ Inventory registers are not maintained at the central warehouse and service centers ✓ There is no identified and documented policy and procedure for regular periodic physical assets count. ✓ MSS supply chain manual (procurement manual) does not cover policies and procedures for sole source and emergency procurements. ✓ The procurement forms (i.e. GRN and GIN) are not pre-numbered.	Medium Risk	44

2.1 Overall assessment

Table 1.2.1: Risk matrix Contd..

S. No	Key Area Assessment	Ranking Description	Key Issues	Risk Ranking	Report Reference (Page No.)
4.	Personnel & payroll systems	Capacities and systems fulfill minimum requirements	✓ Salary range of CDF is approved by the GB whereas CDF is also a member of GB. A conflict of interest thus arises. ✓ Salary and other allowances of CD are approved by Marie Stopes International (MSI). No formal agreement exists between MSI and MSS in this regard. ✓ HR Manual do not cover policies and procedures for gender balance and employee's long term disability.	Low Risk	52
5.	Compliance with Applicable Laws and Regulations	Represent a moderate/manageable risk which can be mitigated by strengthening measure incorporated concurrently with implementation.	✓ According to article VI clause 2 of the constitution of MSS, sale or disposal of any property shall be approved by the members in special general meeting via three fourth majority. However, approval of members was not sought incase of disposal of Sialkot property, sold in 2010. ✓ Risk assessment matrix was not prepared and submitted to donor as required in project Research and Advocacy Fund project (RAF)-1 guidelines. ✓ Funds from USAID was not maintained in interest bearing account as required under USAID regulation "Mandatory Standard Provisions for Non-U.S. Nongovernmental Recipients". ✓ Income Tax deductions were not properly made.	Medium Risk	55
6.	Absorptive capacity Analysis	Capacities and systems fulfill minimum requirements	✓ Some projects have an individual burn rate below 60%, which is well below the average burn rate of all the projects. ✓ There are some gaps between current policies and procedures and those required by USAID regulations in procurement process. ✓ Analyzing in context of USAID funds, the core management needs to comprehend the technical and financial requirements attached with USAID rules and regulations.	Low Risk	60

2.2 Introduction

INTRODUCTION TO THE REPORT:

Rafaqat Mansha Mohsin Dossani Masoom & Co, Chartered Accountants (herein after referred to as RMDM), has been appointed by ASP-RSPN to carry out pre award assessment of potential recipient – MSS.

MSS is a social enterprise that provides reproductive health and family planning services to the people of Pakistan. Registered in 1990, MSS is a subsidiary of Marie Stopes International (MSI), a UK based organization with partners in 43 countries around the globe. Marie Stopes Society is dedicated to ensuring an individual enjoys his/her right to sexual and reproductive health.

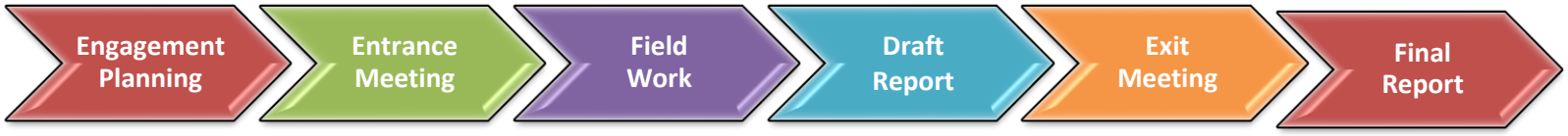
The summary is not meant to be exhaustive and should therefore be read in conjunction with the detailed report and annexures thereto.

Objective, Scope and Methodology

Objective of the Pre-Award assessment is to provide reasonable assurance to ASP-RSPN that the recipient has an acceptable organizational and management structure, accounting, financial management systems and other systems of internal controls, technical capabilities, quality assurance capabilities, as well as acceptable policies, procedures and practices.

We conducted an evaluation of the financial statements of the recipient and its financial position. A detailed analysis of the recipient's systems was carried out to address whether the accounting, record keeping and overall financial management systems meet the applicable laws, regulations and standards in 22 Code of Federal Regulations (CFR) 226, Federal Acquisition Regulations (FAR), USAID Acquisition Regulations (AIDAR), Office of Management & Budget (OMB) circulars, formal Agency policies and guidelines as applicable. For detailed scope of work refer to annexure F of this report.

In obtaining the requisite level of assurance, a six stages approach was followed;



2.2 Introduction

Pre award assessment results

The assessment was performed in line with general attestation standards and criteria established by ASP-RSPN. The assessment report is included in section 1 titled: 'Assessment report'. The Report contains our opinion which is qualified with respect to material issues warranting the imposition of 'pre' and 'post' disbursement conditions.

Pre-Award assessment results are summarized as follows:

Control environment

Based on our detailed assessment procedures performed to evaluate the key area, 'control environment' was assessed to pose a '**High risk'** which can be mitigated by adopting a strengthening and restructuring strategy with involvement of the key management and active oversight role of GB and ASP-RSPN. Synopsis of the key issues in this area is as follow:

- ✓ The GB consists of four members; half of which are involved in the day to day operations of MSS i.e. CD and CDF. They govern and perform oversight of activities in which they are involved as management function.
- ✓ The minimum number of meetings of GB required by the constitution is once in twelve months.
- ✓ Delegation of powers from the GB to the senior management team is not documented. Senior management team includes CD, CDF and other operational directors of MSS.
- ✓ The following policies and procedure manuals currently in practice of MSS are not approved by the GB:
  - Financial Guidelines
  - Supply Chain Manual (Procurement Manual)
  - HR manual
- ✓ As per TOR of the Internal Audit Department the head of the Internal Audit Department reports to CD, instead of GB.
- ✓ No policies and procedures are identified and documented in the form of Internal Audit Manual to provide for a structured approach to cover the processes related with Internal Audit Department.
- ✓ The Internal Audit Department (financial audit) was established in 2008 consisting of three members. Up till now the Department has conducted audit of only three central departments, only once each i.e. Finance Department, HR Department and Logistics Department. Also as shown by the annual audit plan the Department carries out audit of 25 to 30 service centers out of 82. This shows that the Department does not have adequate personnel strength to cover all the operations of MSS.
- ✓ The internal audit department does not perform formal risk assessment procedure which is an important factor in effective internal audit planning.

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- ✓ As per TOR of Internal Audit Department the personal files and payroll of CD, CDF and all directors shall be auditable subject to approval of the CD.
- ✓ MSS has no policy with respect to rotation of external auditors. The current external auditors of MSS are auditing the financial statements of MSS for the last 10 to 12 years and there has been no change.
- ✓ Though MSS's management, as part of the risk management process, has resolved/ provided for some observations and recommendations of the prior auditors. However, some observations and recommendations remain unresolved.
- ✓ Business continuity and disaster recovery planning determines an organization's relevant response to situations like natural disasters, terror attacks and other unusual circumstances that hinders its operation. Although MSS heavily relies on information technology for its day today operations yet it has not adopted information technology disaster recovery and business continuity plans.

Financial Management and Accounting

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's current capacity in financial management poses a **'Medium Risk'** which can be mitigated by strengthening measures incorporated concurrently with implementation. Key issues in this area are:

- ✓ MSS is currently a sub-recipient of USAID funded project. A mechanism in the form of a comprehensive checklist is not in place that could ensure the allowability and allocability of costs in accordance with the applicable provisions of USAID and US government relating to procurement documents, cost principles.
- ✓ MSS currently does not maintain separate interest bearing accounts to deal with USAID funds.
- ✓ The following weaknesses and control deficiencies were observed :
  - Pirated Anti Virus has been installed which does not prevent unauthorized access and risk of malicious viruses completely.
  - Physical access control has not been observed on MSS server room and other premises .
  - No password protection and complexity policy/strategy has been implemented.
  - Pirated operating systems for computers are being used by MSS that exposes MSS to logical access threats and data loss .
- ✓ MSS does not have documented policies and procedures that identifies the basis, principles for development, implementation and control of program and operational budgets.

Procurement system

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's current procurement function poses a **'Medium Risk'** which can be mitigated by strengthening measures incorporated concurrently with implementation. Key issues in this area are:

2.2 Introduction

- ✓ Despite being a sub-recipient in a USAID funded project, pertinent requirements of the USAID regulations relating to procurement of goods and services have not been incorporated in the procurement policies and procedures:
  - Ineligible/ restricted goods and services (ADS Chapter 312)
  - Review of Excluded Parties List System (EPLS) to ensure that the contractor is not listed in EPLS (FAR subpart 9.405).
- ✓ Inventory registers are not maintained at the central ware house and service centers.
- ✓ It has been observed that continuous instances of fixed assets theft has occurred in the financial year ended December 31, 2010, 2011 and in 2012. This may indicate that physical controls related to assets are not designed effectively to prevent theft.
- ✓ There is no identified and documented policy and procedure for regular periodic physical assets count.
- ✓ MSS Supply Chain Manual (Procurement Manual) does not cover policies and procedures for sole source and emergency procurements.
- ✓ The threshold for open bid competition is set at Rs. 14,500,000 which is on the higher side keeping in view the size of the entity.
- ✓ MSS has no policy and procedure for advertising sale/auction of its obsolete or scrap fixed assets except for sale of vehicles, which is necessary to ensure transparency of the disposal process.
- ✓ GRN is prepared in Head Office instead of warehouse.
- ✓ GRN does not contain reference to PO against which goods are received to ensure quantity and specification of goods ordered.
- ✓ No GIN is prepared by central warehouse at the time of issuing goods to centres.
- ✓ The procurement forms GRN & GIN are not pre-numbered.

Personnel and payroll systems

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's Personnel and Payroll System poses a **'low risk'.** Key issues in this area are:

- ✓ Salary range of CDF is approved by the GB whereas CDF is also a member of GB. A conflict of interest thus arises.
- ✓ Salary and other allowances of CD are approved by MSI. No formal agreement exists between MSI and MSS in this regard.
- ✓ No mechanism for preparing staff time sheets is implemented by MSS
- ✓ HR manual do not cover policies and procedures for gender balance and employees' long term disability.

Compliance with Applicable Laws and Regulations

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's compliance with laws and regulations poses a **'Medium Risk'** which represent a moderate/manageable risk which can be mitigated by strengthening measure incorporated concurrently with implementation. Key issues in this area are:

- ✓ According to article VI clause 2 of the constitution of MSS, sale or disposal of any property of MSS shall be approved by the members in special general meeting via three fourth majority. However, approval of members was not sought incase of disposal of Sialkot property, sold in 2010.
- ✓ As per article II of constitution, MSS shall establish its principle office at Lahore while currently MSS is operating its principle office at Karachi.
- ✓ Perquisites and allowances provided to employees in the form of medical allowance, salary of domestic servants and transportation is not included in the computation of taxable salary which is in contradiction with section 12 and 13 of the Income Tax Ordinance, 2001.
- ✓ Income tax is withheld from payment of vehicle rentals at 6% instead of 2%. This is in contradiction of section 153 of the Income Tax Ordinance, 2001.
- ✓ The constitution of MSS does not provide for seeking prior approval of Commissioner Income Tax for any proposed amendment in the constitution as required in rule 213 (h) of the Income Tax Rules, 2002.
- ✓ Risk assessment matrix was not prepared and submitted to donor as required in project RAF-1 guidelines.
- ✓ Funds from USAID was not maintained in interest bearing account as required under USAID regulation "Mandatory Standard Provisions for Non-U.S. Nongovernmental Recipients".

OVERVIEW OF MSS

1. Overview of MSS:

a) Background:

MSS is a social enterprise that provides reproductive health and family planning services to the people of Pakistan. Registered in 1990, MSS is a subsidiary of MSI, a UK based organization with partners in 43 countries around the globe. Marie Stopes Society is dedicated to ensuring an individual enjoys his/her right to sexual and reproductive health. MSS adopts an integrated approach towards improved reproductive health by combining comprehensive reproductive health services, social marketing, capacity building, advocacy, networking and information dissemination. MSS keeps local communities and their needs at the heart of all its programmes. As a principle it employs only local community people, investing in their development by building their capacity through intensive trainings.

In March 2008 MSS received the Certification Award by the Pakistan Centre for Philanthropy for meeting high standards on Internal Governance, Financial Management and Programme Delivery.
MSS believes in building and working through partnerships with the Government, Private Sector, NGOs and local Community Based Organizations. MSS has and maintains excellent Public Private Partnerships with Ministry of Population Welfare (MoPW), Ministry of Health (MoH) and Secretary Health Balochistan.

b) Vision:

To improve the reproductive health of people in Pakistan.

c) Mission:

- ✓ To be the leading, effective and enduring contributor towards improved reproductive health of the people in Pakistan.
- ✓ Fills the unmet needs for accessible and affordable quality reproductive health care services for women, men and their families.
- ✓ Bolsters the life cycle approach through comprehensive reproductive health services and information.
- ✓ Adopts a client centred approach.
- ✓ Promotes appropriate Reproductive Health development schemes, policies and laws.
- ✓ Helps catalyze initiatives for gender equality.

d) Core Values:

MSS has adopted a core value system which is integrated into the overall organization's culture and operational Policies and procedures with the aim to ensure that overall society's objectives are achieved and the vision of the society is realized. MSS core values include:

- ✓ Go to work every day to enable more couples to have children by choice, not chance.
- ✓ Meet the needs and exceed the expectations of all our customers, service users, donors, host governments and fellow team members.
- ✓ Achieve high quality, measurable outcomes rather than focusing on inputs or processes.
- ✓ Through learning, innovation and risk taking we remain at the forefront of family planning and reproductive healthcare.
- ✓ Build effective programs and change behaviours which will have lasting impact for individuals and their communities.
- ✓ Our continued success depends on the creativity, commitment and courage of MSS team members.

e). Legal Status:

MSS has been registered under the Societies Act, 1860 as an independent not-for-profit society under registration number RT/4049/L/S/90/762.

f). Tax Status under local laws:

MSS is exempt from the levy of income tax under clause 58 (3) of part I of 2nd schedule to the Income Tax Ordinance, 2001.

2. History and current status :

In 1990, MSS was officially registered with the Registrar of Joint Stock Companies, Lahore as a Non-Governmental Organization (NGO) under the Societies Act, 1860. In 1992 MSS started providing sexual reproductive health services and opened its first reproductive health center in Karachi, to educate and provide counseling facilities regarding sexual health. Later in 1994, MSS started its "outreach" services to remote areas and 1999 MSS became one of the first non-governmental Reproductive Health service provider to achieve ISO 9001 certification for their quality services in the field of reproductive health. From 2001 MSS stared its Youth Advocacy Network (YAN) and Community Advocacy Network (CAN) initiated for social mobilization. Later in 2002 Management Information System (MIS) was developed for MSS linking the whole organization. In 2004 MSS entered into partnership with the government in setting up 18 HIV/AIDS Voluntary Counseling and Testing (VCT) Centers, in the same year MSS initiated its call centre for information on Reproductive Health. MSS grew to a network of 39 centers in 24 districts in the year 2005. 2006 was the year in which MSS employed a fleet of four mobile service units taking services to the most for flung populations. MSS upgraded its call centre into a 24/7 facility staffed by the doctor (0800-22333) in 2007. 2008 was the year in which great development and expansion was observed. In that year MSS received certification of Pakistan Centers of Philanthropy. MSS launched SRHmatters ; a bilingual website on sexual and reproductive health matters with online confidential professional service in the same year, followed by initiation of SURAJ, its 100 member Private provider Partnership in Sindh & Punjab then in the same year MSS received the Mari Stopes International coveted 'Infection Prevention' award.

In 2009 MSS expended its delivery facilities to 100 across 73 districts of Pakistan followed by MSI achievement award for increasing 'CYPs that count'. MSS research findings were presented at "The 1st International Congress on Women's Health and Unsafe Abortion (IWAC 2010) in Bangkok, Thailand" from the 20th to 23rd January 2010. In September 2011, MSS achieved a milestone with six of its centers of Karachi district (namely New Karachi, Nazimabad, PECHS, Gulshan-e-Iqbal, Korangi and Orangi) received the ISO 9001 certification.

Behtar Zindagi Centers:

3.1 Organizational Profile

MSS Approach:
MSS adopts an integrated approach towards improved reproductive health by combining comprehensive reproductive health services, social marketing, capacity building, advocacy, networking and information dissemination.

MSS keeps local communities and their needs at the heart of all its programs. As a principle it employs only local community people, investing in their development by building their capacity through intensive trainings.

MSS is currently implementing USAID funded Project **"Strengthened Delivery of Integrated Family Planning and Safe Motherhood Services in 29 Districts of Sind and Punjab (SIFPO)"** under a sub-contract with MSI (The prime contractor for the SIFPO Project). The scope of work of the sub-contract includes the following four Intermediate Results (IR):

- ✓ Strengthening organizational capacity to deliver quality family planning services to target groups. SIFPO will contribute to reaching population with high unmet need for FP with cost effective interventions.
- ✓ Improved quality assurance standards and results are quantified and disseminated to strengthen family planning performance at the global level.
- ✓ Increased organizational sustainability of country-level programs. Over the course of the project, SIFPO will increase capacity to capture revenue and become more self sustaining over time while still responding the needs on underserved and marginalized groups.
- ✓ Enhanced gender sensitive family planning services targeting youth at the global level. SIFPO will integrate youth and gender concerns into project activities in such a way that women, including young women, are able to access quality FP services that meet their needs.

3. MSS's Core Competencies

MSS has extensive experience in social marketing and private sector engagement for health solutions.

- **Demand Creation:** MSS uses social marketing and behavior change communication to build awareness of health problems and create demand for products that fill unmet health needs. MSS's goal is to build consumer awareness of the need and benefits for positive healthy behavior changes, more specifically through consistent use of reproductive, maternal and child health products and services. The goal for each product is to ensure long-term market viability.
- **Training and Outreach:** MSS provides education and training programs to private sector health providers and directly to consumers through community-based programs such as conducting community health meeting and holding sports activities in districts and villages. This also plays a role in building awareness of health issues and creating demand for new products.
- **Product Sales:** MSS ensures high product adoption rates and ultimately sustained consumer behavior change through local availability of high quality, affordable health products. The private sector produces and distributes these products through retail outlets, such as pharmacies and convenient stores. The goal is consumer regular use of and satisfaction with each product offering.
- **Private Sector Advocacy:** MSS has built a productive relationship with Ministry of Population Welfare and now works to advocate for a functional relationship with the private sector. The main focus to represent the best interests of private health providers with the goal of the provision of quality heath products and services.
- **Research, Monitoring and Evaluation (M & E):** Research in Pakistan is often sensitive due to cultural and religious constraints. Given this, it is essential to develop, approve, and conduct research in a well-organized, efficient, and professional manner. MSS continually works to ensure that all training, communications, marketing, and policy activities are based on solid evidence. The RAF project funded by the British Council overlooks and monitor the activities of MSS and evaluate the results obtained from their research**.**

4. Major Donors for MSS:

4.1 Table of major donors.

Donor	Period of availability	Grants
David Lucile & Packard Foundation.	Sep 2011-Aug 2014	$ 900,000
Large Anonymous Donors.	Mar 2011-Dec 2012	$ 10,000,000
Department for International Development (DFID).	Jul 2011-Jun 2016	£ 2,470,508
Family Health International (FHI).	Sep 2010-Jan 2013	£ 55,596
British Council (RAF 1)	Oct 2010- May 2013	Rs 59,448,824
British Council (RAF 2)	Jun 2011-May 2013	Rs 65,597,596
Path Finder	Feb 2012 - Jan 2013	Rs 9,098,713

3.1 Organizational Profile

5. Governing Board

GB consists of four members who meets once a year to discuss MSS activities and the progress of its work. The GB exercises general supervision and control on the activities of the entity which includes, but not restricted to the following:

- Approving budget.
- Approval of annual account.
- Selecting an independent auditor.
- Overseeing the activities of the organization.
- Approval of annual payroll slabs.

Table-5.1: Particulars of GB

S. No	NAME	Designation
1	Mr. Shaiq Usmani	Member & Chairman
2	Mr. Ahmed Kuli Khan Khattak	Member / Vice Chairman
3	Dr. Mohsina Ahsan Bilgrami	Member/ Secretary
4	Mr. Umer Farooq	Member / Finance Secretary

6. Constitution and Policies & Procedures

The following constitutes the policies and procedures framework of MSS:

a. MSS Constitution.
b. Operations Manual.
c. HR Manual.
d. Financial Guidelines.
e. Supply Chain Manual.

a. MSS Constitution.

These are the basic bye laws or constitution of MSS and are enacted in compliance with Societies Act ,1860. Constitution address the basic structure and governance of MSS including the activities, determining responsibilities and authorities of personnel and other bodies within the organization. The following are addressed in the Constitution:

i. Name.
ii. Principle Office.
iii. Objects.
iv. Legal Status and Limited Liability.
v. Appointment and Number of GB of the Society.
vi. Vesting.
vii. Membership.
viii. Management.
ix. Powers.
x. Net Surplus.
xi. Meetings of the GB.
xii. Vote.
xiii. General Meetings.
xiv. Finance and Bank Account.
xv. Audit and Accounts.
xvi. Amendments to the constitution.
xvii. Dissolution.

b. HR Manual.

This manual provides an insight about the HR of the MSS, covering key areas like, Recruitment & Selection , Training Development & Performance Appraisal System, Compensation & Benefits, Payroll, Employee Relations, Health and Safety, Separation Management and Code of Conduct and Disciplinary Measures.

c. Financial Guidelines.

This manual provides financial policies and guidelines regarding MSS Monthly reporting procedure, Bank accounts opening guidelines, Approval Sheet Procedure, Withholding tax deduction, Advance payment procedure, Petty cash, Incentives, Camp Expenses, Travel Policy (Out of City Expenses), Procurement Policy, Approved venders, Work Orders (WO) for repairs & Maintenance, Stocks, Fixed Assets, Other Assets, Society's Vehicles, Income Recognition Procedure, Donation, MSS Income Bank Policy, Subsidy Voucher (SV), Subsidy Voucher (SV) policy –MSS Staff, Financial Full & Final Settlement, Voucher Management system, Policy regarding making payment through money order.

d. Supply Chain Manual.

This manual provides an insight on the MSS procurement policy and procedure that are provided in the government of Pakistan Procurements Policy. Guidelines along with other key areas like, Code of Conduct, Purchase Cycle, Inventory Management, Fixed Assets Acquisition and Disposal, Vendor Appraisal, Insurance, Repair and Maintenance.

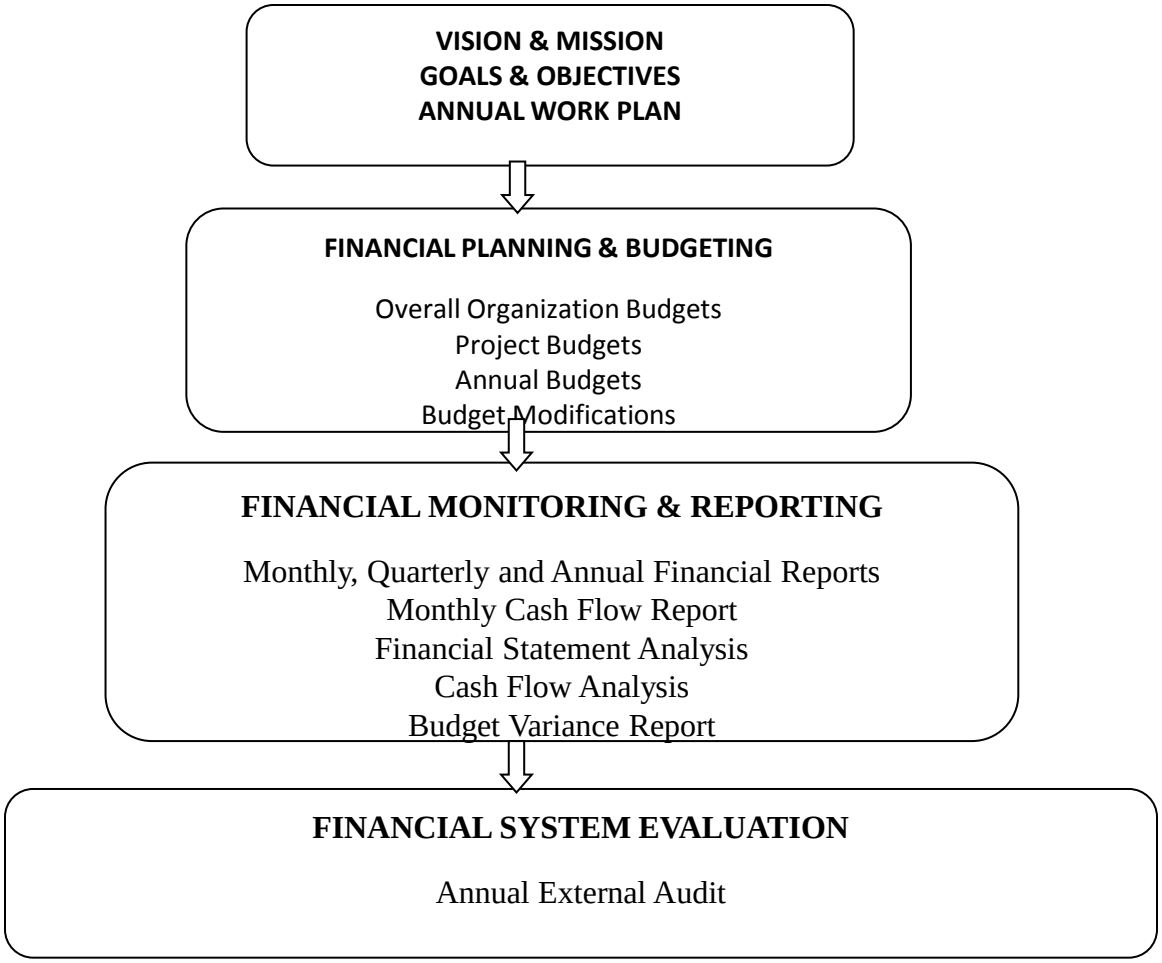
7. Finance and Administration

MSS's Finance and Administration functions fall under the Finance Department which is headed by the CDF. The Finance and Administration Department consists of the following sections;

- ✓ Accounts and Finance.
- ✓ HR.
- ✓ Admin.
- ✓ IT.
- ✓ Logistics.
- ✓ Compensation and Benefits.

The finance team comprises the Financial Controller and his team (Manger Accounts and Finance, Assistant Manger Accounts and other support staff). HR department is headed by Deputy Senior Manager HR and his team. Administration is headed by Manager Admin. IT department is headed by Deputy Senior Manger IT supported by his team(Assistant Manager IT, Senior Executive IT Data Management Officer and IT Officer). Logistics is headed by Manager logistics and supported by his team (Assistant Manager Logistics Manager compensation, Assistant Manger Compensation and Benefits). MSS also has separate staff for different donor projects which are responsible for their own individual projects and are directly reportable to CDF.

8. Process Flow of Financial Management



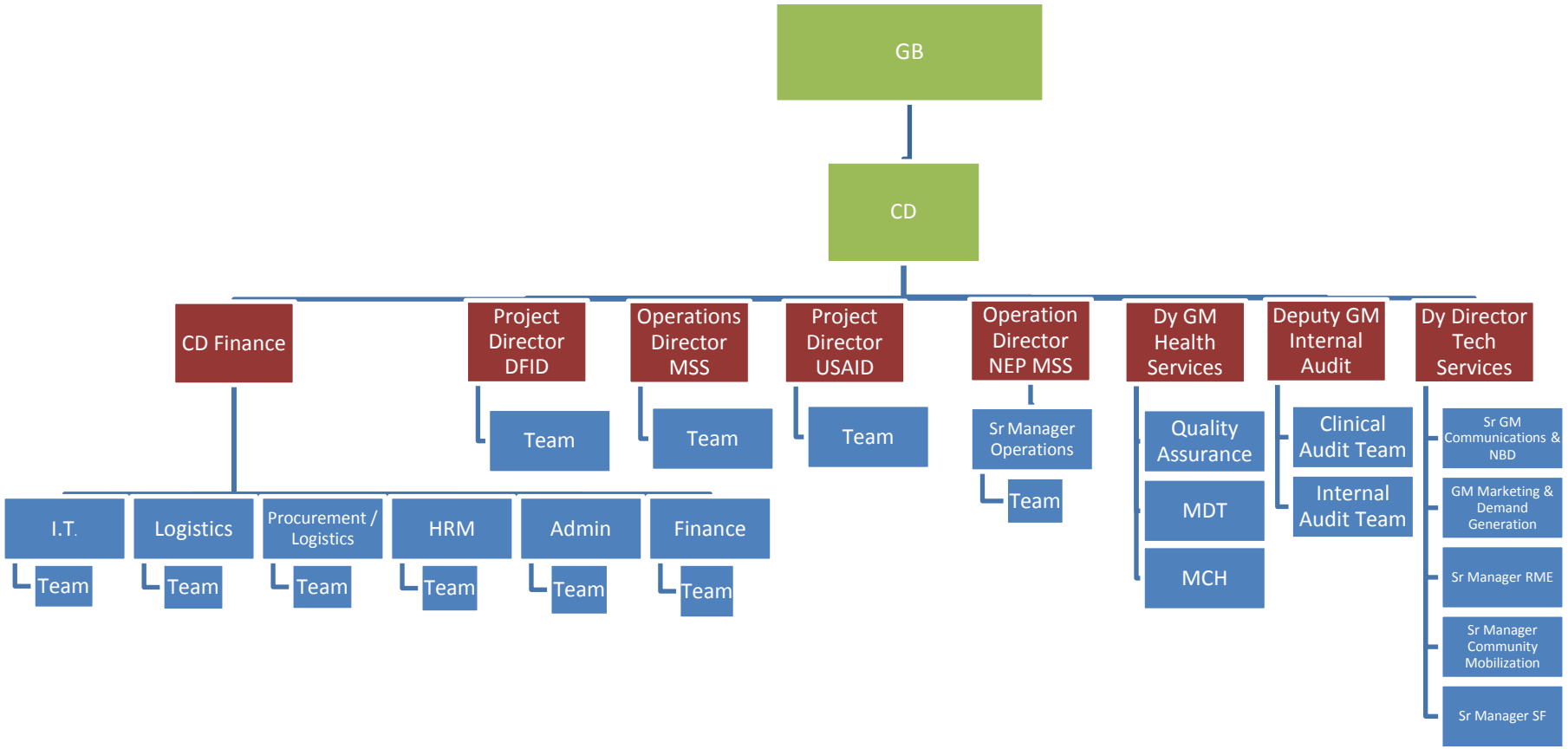
9. Summary of staff

Staff is hired in accordance with specific projects' requirements in line with the HR Manual. The following is the summary of MSS staff.

Table:-9.1 Summary of MSS staff

Department	Number of Employees
CD	2
Director / Dy. Director	4
Admin Department	17
Audit Department	7
Compensation & Benefits Department	7
Finance Department	25
HR Department	7
IT Department	10
Logistics Department	2
Marketing & Demand Generation Department	6
MDT Department	13
Operations – Non Service Providers	844
Operations – Service Providers	190
QA Department	7
R&M Department	14
Technical Services Department	4
Grand Total	**1159**

3.2 Organizational Structure



KEY AREA ASSESSMENT

leading edge alliance

innovation • quality • excellence

Group Risk
Strategic

MSS is registered with Registrar of Joint Stock Companies as Society.

The entity is currently a sub recipient of USAID funded SIFPO Project.

Entity has its own Policies and Procedures manuals for some core area.

1. Overall Assessment

High Risk

Based on our detailed assessment procedures performed to evaluate the key area, MSS's Control Environment poses a "**High"** risk which can be mitigated by adopting a strengthening and restructuring strategy with involvement of the key management and active oversight role of GB and ASP-RSPN. Key issues in this area are:

- ✓ The GB of MSS consists of four members half of which are involved in the day to day operations of MSS i.e. CD and CDF. They govern and perform oversight of activities in which they are involved as management function.
- ✓ The minimum number of meetings of GB required by the constitution is once in twelve months.
- ✓ Delegation of powers from the GB to the senior management team is not documented. Senior management team includes CD, CDF and other operational directors of MSS.
- ✓ The following policies and procedure manuals currently in practice of MSS are not approved by the GB:
  - Financial Guidelines
  - Supply Chain Manual (Procurement Manual)
  - HR Manual
- ✓ As per TOR of the Internal Audit Department the head of the Department reports to the Managing Director, currently CD, instead to the GB.
- ✓ No policies and procedures are identified and documented in the form of Internal Audit Manual to provide for a structured approach to cover the processes related with Internal Audit Department.
- ✓ The Internal Audit Department (financial audit) was established in 2008 consisting of three members. Up till now the Department has conducted audit of only three central departments, only once each i.e. Finance department, HR department and logistics department. Also as shown by the annual audit plan the Department carries out audit of 25 to 30 service centers out of 82. This shows that the Department does not have adequate personnel strength to cover all the operations of MSS.
- ✓ The Internal Audit Department does not perform formal risk assessment procedure which is an important factor in effective internal audit planning.
- ✓ As per TOR of Internal Audit Department the personal files and payroll of CD, CDF and all directors shall be auditable subject to approval of the CD which is a limitation of scope.
- ✓ MSS has no policy with respect to rotation of external auditors. The current external auditors of MSS are auditing the financial statements of MSS for the last 10 to 12 years and there has been no change.
- ✓ Though MSS's management, as part of the risk management process, has resolved/ provided for some observations and recommendations of the auditors. However, some observations and recommendations remain unresolved.
- ✓ Business continuity and disaster recovery planning determines an organization's relevant response to situations like natural disasters, terror attacks and other unusual circumstances that hinders its operation. Although MSS heavily relies on information technology for its day today operations yet it has not adopted information technology disaster recovery and business continuity plans.

Group Risk

Strategic

GB consists of four (04) members. The GB holds meetings once in a year to discuss MSS activities and the progress of its work.

2. Overview

MSS has been registered with the Registrar of Joint Stock Companies 1990 as an independent not-for-profit society under registration number RT/4049/L/S/90/762. It is governed by the GB comprising four (04) members. GB is required to meet at least once every year. The GB exercises general supervision and control on the activities of the entity which includes, but not restricted to the following:

- Approving budget.
- Approval of annual account.
- Selecting an independent auditor.
- Overseeing the activities of the organization.
- Approval of annual payroll slabs.

The entity is currently a sub-recipient of MSI under the SIFPO project funded by USAID.

MSS is governed by its constitution, financial guidelines, HR Manual, Supply Chain Manual and Operational Manual which contains policies and procedures covering the processes of core areas relating to HR, procurement, financial management, service delivery and quality and logistics.

The management team is headed by the CD who is supported by unit heads/managers; namely Director Operation, CDF, Deputy General Manager Internal Audit, Deputy Director Technical Services, Deputy General Manager Health Services and various project directors.

The entity uses "Sun System" accounting package to support its back office accounting. Accounting system is based on donor and project coding basis so that the receipts and payments of specific project can be identified and reported separately.

Overall Financial statements of MSS for the year ended December 31, 2011 were audited by M/s BDO Muhammad Ibrahim & Co., Chartered Accountants and have issued an un-modified auditor's report thereon. They have issued a management letter of weaknesses with fourteen (14) observations.

In addition the audit of project "Research and Advocacy (RAF)" was also conducted by M/s E & Y Ford Rhodes Sidat Hyder & Co for the period 15 June, 2011 to June 26, 2012 and have issued an un-modified auditor's report thereon. They have issued a management letter of weaknesses with two (02) observations

3.Risk Category

3.1 Control environment

a) Risk Description

Factors determining the control environment i.e. integrity & ethical values, commitment to competence, GB, management's philosophy & operating style and organizational structure, have been identified, implemented and evaluated to achieve the objectives envisaged with overall internal control environment.

Group Risk
Strategic

b) Conclusion

Based on the procedures performed we observed that MSS is aware of its obligations to design and implement a system of internal control at entity and application level. However, the insufficient meetings of GB, involvement of GB in entity's operations, undocumented delegation of powers from GB to senior management team, unapproved Policies and Procedures Manuals, non rotation of external auditors and limitations and weaknesses of internal audit function; are some of the key issues that warrants the 'High risk' ranking for 'control environment'. Considerable efforts have to be done on part of the management to mitigate risks associated with control environment.

Group Risk
Strategic

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'CONTROL ENVIRONMENT'

1. The structure of the GB hinders the performance of associated oversight function:

Issue Arising:
The GB of MSS consists of four members half of which are involved in the day to day operations of MSS i.e. CD and CDF. They govern and perform oversight of activities in which they are involved as management function.

Implications:
The existing mix of the GB (two executive and two non-executive members) undermines its strategic role to provide an independent oversight of the operations. There also arises a question of conflict of interest for which no policy has been adopted by MSS as yet.

Recommendations:
The number of non-executive members of the GB should be increased so as to enable it to effectively perform its strategic role of oversight of overall operations. Further MSS should adopt a policy on conflict of interest.

Management response:
We are of the view that currently all rules and regulation of the MSS constitution are being complied with. However, for the sake of enhancing good governance and practices these will be considered by the GB at its next meeting in the first quarter of 2013.

2. Insufficient frequency of GB meetings:

Issue Arising:
The minimum number of meetings of GB required by the constitution is once in twelve months.

Implications:
Meeting once a year is not sufficient to enable the GB to effectively perform its strategic role of independent oversight of all the operations of MSS .

Recommendations:
Constitution should be modified to increase the number of mandatory meetings of the GB so as to ensure active involvement and supervision of the overall operations of MSS.

Group Risk
Strategic

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'CONTROL ENVIRONMENT' CONTD..

Management response:
We are of the view that currently all rules and regulation of the MSS constitution are being complied with. However, for the sake of enhancing good governance and practices these will be considered by the GB at its next meeting in the first quarter of 2013.

3. Delegation of powers from GB to senior management team not documented:

Issue Arising:
Delegation of powers from the GB to the senior management team are not documented. Senior management team includes CD, CDF and other operational directors of MSS.

Implications:
In the absence of documented delegation of powers from the GB to the senior management team it is difficult to identify and segregate the powers of the senior management team from those that must be exercised by the GB in their meeting i.e. approval of policies, disposal of major assets, expansion or cessation of operations, making changes to the organization structure etc.

Recommendations:
Delegation of powers from the GB to the senior management team should be documented so as to clearly identify and segregate powers between the GB and senior management team.

Management response:
We are of the view that currently all rules and regulation of the MSS constitution are being complied with. However, for the sake of enhancing good governance and practices these will be considered by the GB at its next meeting in the first quarter of 2013.

Group Risk
Strategic

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'CONTROL ENVIRONMENT' CONTD..

4. Policies and procedures not approved by the GB:

Issue Arising:
The following policies and procedure manuals currently in practice of MSS are not approved by the GB. Currently the policies and procedures are approved by core management instead.

- ✓ Financial guidelines
- ✓ Supply chain manual (Procurement manual)
- ✓ HR manual

Implications*:*
The lack of approval of these documents raises doubts about their authorization, authenticity and validity. It also undermines the GB role of independent oversight of the MSS operations, streamlining its operations and providing a future road map that is established by these documents.

Recommendations*:*
All the policies and procedures and any amendments thereto must be presented before the GB for approval so as to ensure their authorization, authenticity and validity.

Management response:
We are of the view that currently all rules and regulation of the MSS constitution are being compiled with. However, for the sake of enhancing good governance and practices these will be considered by the GB at its next meeting in the first quarter of 2013.

Group Risk
Strategic

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'CONTROL ENVIRONMENT' CONTD..

5. Weaknesses and limitations of Internal Audit Department:

Issue Arising:
MSS has established a separate internal audit department that consists of two sections, Financial audit section and clinical audit section. We observed the following weaknesses and limitations of the Internal Audit Department.

- ✓ As per TOR of the Internal Audit Department reports to the Managing Director, currently CD, instead to the GB.
- ✓ No policies and procedures are identified and documented in the form of Internal Audit Manual to provide for a structured approach to cover the processes related with Internal Audit Department.
- ✓ The Internal Audit Department (financial audit) was established in 2008 consisting of three members. Up till now the Department has conducted audit of only three central departments, only once each i.e. Finance Department, HR Department and Logistics Department. Also as shown by the annual audit plan the Department carries out audit of 25 to 30 service centers out of 82. This shows that the department does not have adequate personnel strength to cover all the operations of MSS.
- ✓ The Internal Audit Department does not perform formal risk assessment procedure which is an important factor in effective internal audit planning.
- ✓ As per TOR of Internal Audit Department the personal files and payroll of CD, CDF and all directors shall be auditable subject to approval of the CD.

Implications:

- ✓ The existing reporting line of the Internal Audit Department in the MSS organizational structure makes its independence impaired as the CD to whom it is reportable is actively involved in the MSS day to day operations.
- ✓ In the absence of properly documented internal audit manual it is difficult for the department to plan and perform the audit of different departments and service centers efficiently and effectively.
- ✓ Due to inadequacy of staff the internal audit department is unable to play its role effectively.
- ✓ In the absence of risk assessment procedures the internal audit department can not identify the areas which are more susceptible to risk of fraud, misstatement or non compliance.
- ✓ This is a limitation of scope for the internal audit department to have access to all the records and personnel of MSS.

Recommendations:

The internal audit department should be strengthened to enhance its effectiveness and ability to cover all the operations of the MSS. The following steps should be taken in this respect:

Group Risk
Strategic

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'CONTROL ENVIRONMENT' CONTD..

- ✓ To ensure transparency and thwart collusion and conflicts of interests, the Internal Audit Department should have a dual reporting relationship. It should report to management for assistance in establishing direction, support, and administrative interface; and to the GB (typically, the audit committee appointed by GB), for strategic direction, reinforcement, and accountability.
- ✓ The Internal Audit Department should develop an Internal Audit Manual consisting of such policies and procedures that provide a structured approach to cover the processes related to Internal Audit Department.
- ✓ The personnel strength of Internal Audit Department should be increased to enable it to cover all the operations of MSS and perform its role effectively.
- ✓ The Internal Audit Department should design and document a formal risk assessment process and periodically exercise it on regular basis to identify all the risky areas of MSS that are susceptible to fraud, misstatement or non compliance.
- ✓ The TOR of Internal Audit Department should be changed such that it has access to all the record of MSS.

Management response:

- ✓ We are of the view that currently all rules and regulation of the MSS constitution are being complied with. However, for the sake of enhancing good governance and practices these will be considered by the GB at its next meeting in the first quarter of 2013.
- ✓ All internal audit activities including planning, execution, documentation and reporting processes of internal audit are clearly defined and documented in each year annual audit plan which is approved by CD. Although it is not mandatory for internal audit to have audit manual, however we have already prepared audit manual which contains complete methodology, process and policies of internal audit. This manual will be approved by the end of 2012.
- ✓ Strength of internal audit department is sufficient to handle current activities. For new projects we have additional position in internal audit who will be covering expanding operations of MSS.
- ✓ Formal risk management process has already been developed and will be implemented by the end of November 2012.
- ✓ Agreed. This point may be taken into consideration during revision of ToRs.

6. External auditors rotation policy:

Issue Arising:

MSS has no policy with respect to rotation of external auditors. The current external auditors of MSS are auditing the financial statements of MSS for the last 10 to 12 years and there has been no change.

Implications:

The continuous relationship with a client may impair auditor's independence.

Group Risk
Strategic

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'CONTROL ENVIRONMENT' CONTD..

Recommendations:

MSS should adopt a policy of external auditors rotation and accordingly should rotate its external auditors after certain audit periods so as to ensure auditor's independence. This will also provide a new view into the MSS control environment and accounting and internal control system.

Management response:

We are of the view that currently all rules and regulation of the MSS constitution are being complied with. However, for the sake of enhancing good governance and practices these will be considered by the GB at its next meeting in the first quarter of 2013.

7. Prior audit recommendations:

Issue Arising:

MSS's management has resolved/ provided for some observations and recommendations of the auditors. However, some observations and recommendations remain unresolved.

Implications:

There is a risk that control issues and other pertinent matters, as pointed out by independent auditors and reviewers, may not be addressed in time. It undermines the real purpose of having third party reviews, audits and assessments, when their relevant findings and suggestions are not addressed and implemented in letter and spirit.

Recommendations:

The GB of MSS should ensure that they include the follow up of auditors'/reviewers' findings and recommendation in their over all risk management and oversight strategy. The management of MSS should coordinate with internal audit function to identify and prioritize external auditors'/ reviewers' findings and recommendations in their internal audit plans.

Management response:

Please refer to annexure D of this report for a detailed issue wise response of MSS management on outstanding/unresolved matter identified and reported by external auditors.

Group Risk
Strategic

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'CONTROL ENVIRONMENT' CONTD..

8. Lack of information technology disaster recovery and business continuity planning:

Issue *Arising:*
Business continuity and disaster recovery planning determines an organization's relevant response to situations like natural disasters, terror attacks and other unusual circumstances that hinders its operations. Although MSS heavily relies on information technology for its day today operations, it has not yet developed information technology disaster recovery and business continuity plans.

Implications*:*
Disaster recovery and business continuity plans enables an organization to respond appropriately to any unusual event and immediately launch all its major functions back into operations. In the absence of such plans major functions of MSS can be disrupted for a longer period of time by any unusual event.

Recommendations*:*
MSS should develop and implement disaster recovery and business continuity plans for all its major functions that will enable them to immediately respond to and start their operations in the event of any unusual circumstances disrupting its operations.

Management response*:*
Noted for compliance.

Group Risk
Financial

MSS has a dedicated finance department which uses Sun System to support the back-office accounting.

Policies and procedures have been identified for certain core areas.

General purpose financial statements as well as those for the project are prepared and audited.

1. Overall Assessment

Medium Risk

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's current capacity in financial management poses a "medium risk" which can be mitigated by strengthening measures incorporated concurrently with implementation. Key issues in this area are:

- ✓ MSS is currently a sub-recipient of USAID funded project. A mechanism in the form of a comprehensive checklist is not in place that could ensure the allowability and allocability of costs in accordance with the applicable provisions of USAID and US government relating to procurement documents, cost principles.
- ✓ MSS currently does not maintain separate interest bearing accounts to deal with USAID funds.
- ✓ Pirated Anti virus has been installed which does not prevent unauthorized access and risk of malicious viruses completely.
- ✓ Physical access control has not been observed on MSS server room and other premises .
- ✓ No password protection and complexity policy/strategy has been implemented.
- ✓ Pirated operating systems for computers are being used by MSS that exposes MSS to logical access threats and data loss .
- ✓ MSS does not have documented policies and procedures that identifies the basis, principles for development, implementation and control of program and operational budgets.

2. Overview

MSS has made an effort in identifying and documenting policies and procedures for some aspects of financial management. Roles and responsibilities of related staff has been adequately segregated.

MSS has a dedicated accounting and finance function involved in recording, classifying, summarizing and reporting of financial transactions to the management. "Sun System" accounting package is used to support the back office accounting function of the entity.

Policies and procedures for the following functions have been identified and documented:

- Banking and cash management
- Maintenance of accounting records
- Financial monitoring and reporting
- Financial accounting system- security and maintenance
- Backup and restoration
- Sun System security policies etc

Existing polices and procedures are focused on recurring financial management functions rather than on non recurring functions like society promotion, liquidity issues, surplus funds investments etc.

Group Risk
Financial

3. Risk Category

3.1 Financial Management Systems

a) Risk Description

- An adequate financial management and internal control structure exists to ensure effective funds utilization. In addition, sufficient and appropriate controls should be in place to ensure that expenditures are approved, authorized, disbursed in accordance with policies and procedures of entity and reported accordingly in proper head of account.
- Sufficient and appropriate controls should be implemented over petty cash management to reduce risk of misappropriation/miss-utilization, fixing ceiling for petty cash payment, fixing float limit, accurately recording and reporting petty cash transactions.
- Sufficient and appropriate controls should be in place to ensure that advances are approved, authorized, disbursed in accordance with policies and procedures of entity and adjusted accordingly in proper head of account. Any unadjusted advances should be reviewed and a follow up should be made.
- Sufficient and appropriate controls should be implemented over maintenance of bank accounts in order to ensure that funds are maintained and controlled as per the laid down policies and procedures.
- Sufficient and appropriate controls should be implemented in order to ensure that bank reconciliation statements are timely prepared and approved by competent authority. Bank reconciliation statements should be prepared for dormant bank accounts.
- Bank payments should be made after following due process of verification and authorization. There must be more than one bank signatory and any change in bank signatories is documented and authorized. Bank accounts are opened and closed by a competent authority.

b) Conclusion

The policies and procedures for financial management systems were observed to be satisfactory except for the lack of approved budget polices and procedures, use of pirated system & application software, weak physical and logical access controls, and a comprehensive checklist that could ensure the allowability and allocability of costs in accordance with the applicable provisions of USAID and US government.

3.2 Financial Management Capacity

a) Risk Description

There is sufficient, competent and experienced staff to effectively manage USAID funds. Further the existing staff should not be overburdened so that they can perform their activities in an effective and efficient manner.

b) Conclusion

The existing staff is sufficiently qualified and competent to effectively manage USAID resources.

USAID FROM THE AMERICAN PEOPLE

Group Risk
Financial

3.3 Accounting System

a) Risk Description

- An adequate accounting system is in place that ensures timely recording, classification, summarization and reporting of financial information.
- A registered reliable accounting package that is effectively and efficiently able to identify, assemble, analyze, classify, record and report on transactions and to maintain accountability for related assets and liabilities shall be used.
- Policies and procedures are in place that ensure adequate segregation of duties.
- In addition, it ensures that the system is acceptable for the award of prospective grant.

b) Conclusion

Policies and procedures for the accounting system are adequate.

3.4 Revenue and Cash receipt cycle

a) Risk Description

All revenues should be appropriately classified and recorded in the correct accounting period. The funds received from donors shall be classified as restricted funds, recorded separately from unrestricted funds and matched with related cost. Separate interest bearing accounts should be maintained for USAID funds.

b) Conclusion

Controls over revenue and cash receipts cycle were found satisfactory except for the lack of separate interest bearing account for USAID funds.

3.5 Cash Disbursement Cycle

a) Risk Description

Sufficient controls over cash disbursements should be in place to ensure that cash is disbursed only upon proper authorization of management, only for intended purposes, and that all disbursements are properly recorded.

b) Conclusion

Controls over cash disbursement cycle were found satisfactory.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'FINANCIAL MANAGEMENT AND ACCOUNTING'

1. Mechanism of ensuring allowability and allocability of costs:

Issue Arising:
MSS is currently a sub-recipient of USAID funded project. A mechanism in the form of a comprehensive checklist is not in place that could ensure the allowability and allocability of costs in accordance with the applicable provisions of USAID and US government relating to procurement documents, cost principles.

Implications:
Costs that not allowed by the applicable cost principles or are not supported by adequate documentation may pass through the existing undocumented compliance filter.

Recommendations:
A comprehensive checklist of applicable regulations should be developed that ensures coverage of all the applicable cost principles.

Management Response:
Since the USAID project is in its inception stage, indirect cost allocations will be made on actual proportionate usage basis after due consultation and approvals from MSI and USAID.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'FINANCIAL MANAGEMENT AND ACCOUNTING' CONTD..

2. USAID funds are not maintained in a separate interest bearing bank account:

Issue Arising:

MSS currently does not maintain separate interest bearing accounts to deal with USAID funds.

Implications:

This is in contravention with USAID mandatory standard provisions which requires the recipients to maintain advances of USAID funds in separate interest bearing bank accounts. It has the impact of loss of potential revenue on the project's funds.

Recommendations:

Advances of USAID funds should be maintained in separate interest bearing bank accounts.

Management Response:

As per USAID applicable guidelines we are not required to open a separate bank account for USAID project, but to follow the MSI's "Cash is Cash" policy, and no separate funds for USAID are received by MSS Pakistan. The funds received from MSI are kept in an interest bearing account.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'FINANCIAL MANAGEMENT AND ACCOUNTING'

3. Lack of information technology controls:

Issue Arising:
The following weaknesses and control deficiencies were observed :

- ✓ Pirated Anti virus has been installed which does not prevent unauthorized access and risk of malicious viruses completely.
- ✓ Physical access control has not been observed on MSS server room and other premises .
- ✓ No password protection and complexity policy/strategy has been implemented.
- ✓ Pirated operating systems for computers are being used by MSS that exposes MSS to logical access threats and data loss .

Implications:
The above stated weaknesses and control deficiencies exposes MSS to data loss, loss of confidentiality and legal actions under software piracy laws. This may possibly undermine the efforts of the management to promote a culture within the entity whereby individuals feel an obligation to abide by ethical compulsions and international laws relating to piracy.

Recommendations*:*
MSS should adopt a policy to discourage the use of pirated software's. Also a proper policy with respect to physical and logical access controls for all the computer software's and equipments should be adopted.

Management Response*:*

- ✓ We have purchased desktop version of license for anti virus, implementation process has been started but require enterprise security after implementing active directory so there is no threat of legal action under piracy law.
- ✓ A proper system has already been deployed on data center / server room
- ✓ Require to have an Active Directory . It will cover all password protection and complexity policies. This will be done in first quarter 2013.
- ✓ We have purchased license of all operating system and office application.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'FINANCIAL MANAGEMENT AND ACCOUNTING'

4. Lack of approved budget policies and procedures:

Issue Arising:

MSS does not have detailed documented policies and procedures that identifies the basis, principles for development, implementation and control of program and operational budgets.

Implications:

In the absence of an approved policies and procedures it is possible that unrealistic project and activity costs are estimated. The unrealistic cost budgets can be either too high or too low. An unrealistically high budget will require useless commitment of valuable funds while a low budget will require commitment of less funds than required affecting the accomplishment of project objectives.

Recommendations*:*

MSS should identify and document policies and procedures that should specify appropriate basis for determining activities costs and roles and responsibility of cost centers with respect to financial management and budgetary control.

Management Response*:*

The annual budget is prepared on standard excel based formats which are self explanatory to a great extent. The annual budget and their revision for MSS and sponsors project were duly approved by the GB while the sponsored funded project such as DFID and USAID were being approved by the respective donors.

Group Risk
Financial

MSS has identified policies and procedures for certain core areas for procurement function.

Procurement Policies and procedures do not include specific requirements of USAID regulations.

1. Overall Assessment

Medium Risk

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's current procurement function poses a 'Medium risk' which can be mitigated by strengthening measures incorporated concurrently with implementation. Key issues in this area are:

- ✓ Despite being a sub-recipient in a USAID funded project, pertinent requirements of the USAID regulations relating to procurement of goods and services have not been incorporated in the procurement policies and procedures:
  - Ineligible/ restricted goods and services (ADS Chapter 312)
  - Review of EPLS to ensure that the proposed contractor is not listed in EPLS (FAR subpart 9.405).
- ✓ Inventory registers are not maintained at the central warehouse and service centers.
- ✓ It has been observed that continuous instances of fixed assets theft has occurred in the financial year ended December 31, 2010, 2011 and in 2012. This may indicate that physical controls related to assets are not designed effectively to prevent theft.
- ✓ There is no identified and documented policy and procedure for regular periodic physical assets count.
- ✓ MSS supply chain manual (procurement manual) does not cover policies and procedures for sole source and emergency procurements.
- ✓ The threshold for open bid competition is set at Rs. 14,500,000 which is on the higher side keeping in view the size of the entity.
- ✓ MSS has no policy and procedure for advertising sale/auction of its obsolete or scrap fixed assets except for sale of vehicles, which is necessary to ensure transparency of the disposal process.
- ✓ GRN is prepared in Head Office instead of warehouse.
- ✓ GRN does not contain reference to PO against which goods are received to ensure quantity and specification of goods ordered.
- ✓ No GIN is prepared by central warehouse at the time of issuing goods to centres.
- ✓ The procurement forms (i.e. GRN and GIN) are not pre-numbered.

Group Risk
Financial

2. Overview :

The entity has identified and documented policies and procedures for certain core areas of procurement process. As per policy, the requesting department/end user is required to complete detailed 'Requisition Order' (RO) for all type of procurements. The Manager Supply Chain makes the approval of procurements upto Rs. 25,000. For procurements exceeding Rs. 25,000, the entity needs to take three (3) quotations from different vendors. Review and selection committee is formed to execute and review the vendor selection process.

For procurements exceeding RS. 14,500,000, the entity needs to undertake open competitive bidding process. A designated review and selection committee is formed to review and execute the bidding process. Review and Selection committee is required to work as a specialized work component that should be responsible for effective and efficient procurements of goods and services. In case of any procurements exceeding Rs. 25,000, CDF is authorized to approve it.

3. Risk Category

3.1 Procurement Function

a) Risk Description

The management should implement sufficient and appropriate controls to ensure that the procurement process is conducted in a manner that provides for open and free competition to the maximum practical extent and have sole-source procurements approved at an appropriate level and are further supported by sufficient underlying record.

b) Conclusion

The procurement function is following the identified and documented policies and procedures for core procurement processes. However, certain policies and procedures relating to specific USAID's requirement still need to be identified and documented as MSS is already a sub-recipient of a USAID funded project. Moreover, MSS procurement function lack policies and procedures for sole source procurement. The threshold for open bid competition has also been set at a higher side.

3.2 Property Management Standards and System

a) Risk Description

Sufficient and appropriate controls should be in place to ensure that:

- Accurate records are properly maintained
- Additions and disposals of inventory and fixed assets are properly authorized
- Fixed assets are used for the intended purpose
- Fixed assets and inventories are safeguarded
- Adequate segregation of duties exist
- Recorded assets physically exists

Group Risk
Financial

b) Conclusion

On the basis of our assessment procedures, it was assessed that due to the lack of identified policies and procedures for fixed assets periodic physical count, advertising sale / auction of scrape/obsolete items and inventory register pose a risk that needs to be mitigated. Also recurring instances of continuous asset theft has raised concerns over physical security plan of assets.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'PROCUREMENT SYSTEMS'

1. USAID regulations relating to procurement not incorporated in policies and procedures:

Issue Arising:
Despite being a sub-recipient in a USAID funded project, pertinent requirements of the USAID regulations relating to procurement of goods and services have not been incorporated in the procurement policies and procedures:

- ✓ Ineligible/ restricted goods and services (ADS Chapter 312)
- ✓ Review of EPLS to ensure that the proposed contractor is not listed in EPLS (FAR subpart 9.405).

Implications:
Practices inconsistent with the US Government regulations may result in disallowance of related costs in USAID funded projects.

Recommendations:
We recommend that all pertinent requirements of USAID regulations should be incorporated in the policies and procedures manuals or a separate procurement control document containing these regulations be prepared for implementation in USAID projects in order to ensure full compliance. A checklist should be developed to ensure that the organization is regularly keeping standard documentation required by the applicable regulatory framework.

Management Response:
Will be incorporated as a checklist in the Procurement Manual.

2. Inventory registers not maintained:

Issue Arising:
Inventory registers are not maintained at the central warehouse and service centers.

Implications:
It results in lack of effective control over inventory management. In the absence of inventory register it is difficult to assess and evaluate complete movement of an item of inventory.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'PROCUREMENT SYSTEMS' CONTD..

Recommendations:
MSS should maintain proper records for all items of inventory on perpetual basis that provides complete movement in terms of quantity and value.

Management Response:
As a part of modernization we have moved away from stock registers and have introduced Bin Cards at all MSS warehouses and service centers.

3. Fixed assets theft:

Issue Arising:
It has been observed that continuous instances of fixed assets theft has occurred in the financial year ended December 31, 2010, 2011 and in 2012. This may indicate that physical controls related to assets are not designed effectively to prevent theft.

Implications:
This can result in financial loss for MSS in the form of theft or damage of valuable fixed assets.

Recommendations:
Appropriate physical security arrangements should be made for all fixed assets of MSS so as to safeguard all such assets against such types of physical threats.

Management Response:
The referred fixed assets have proper internal controls and were being insured. The insurance claim of these fixed assets have been lodged and successfully received.

4. Policy for periodic assets count:

Issue Arising:
There is no identified and documented policy and procedure for regular periodic physical assets count.

Implications:
It may lead to subjective practices in conducting the periodic physical assets count if undertaken by the entity. An unstructured approach to asset count may impair the ability of management to reconcile record with physical existence or ascertain the authorized location or use of asset.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'PROCUREMENT SYSTEMS' CONTD..

Recommendations:
Policies and procedures should be identified and documented for conducting periodic physical assets counts.

Management Response:
The external auditors physically verify the existence and ownership of all assets and inventory during the yearly audit. MSS Finance department carries out complete physical check at least 25 centers in a year.

5. Lack of policies & procedures for sole source and emergency procurement:

Issue Arising:
MSS supply chain manual (procurement manual) does not cover policies and procedures for sole source and emergency procurements.

Implications:
Sole source procurement procedures are required in case there is only one supplier in the market for an item or there is some emergency and through proper channel procurement can result in delays. The lack of such policy and procedure can result in delays in procurement of goods and services under such circumstances.

Recommendations:
MSS should adopt an appropriate policy and procedure for sole source and emergency procurement that should clearly specify the approval authority and roles and responsibilities in this respect.

Management Response:
Sole source procurement process as prescribed by MSI is being followed and will be included in the new procurement manual.

Group Risk
Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'PROCUREMENT SYSTEMS' CONTD..

6. Inadequate threshold for open bidding competition:

Issue Arising:
The threshold for open bid competition is set at Rs. 14,500,000 which is on the higher side keeping in view the size of the entity.

Implications:
Keeping the threshold for open bidding on the higher side shows that the procurement process is not designed appropriately so as to ensure fair competition.

Recommendations*:*
The threshold for open bidding should be kept at an appropriate level keeping in view MSS procurement requirements and the related cost of procurement process so as to make the process more competitive and transparent. This will also ensure that a large number of vendors participate in bidding process resulting in competitiveness

Management Response:
The threshold set for open tender at Rs. 14.5m is as per MSI guidelines and we consider it appropriate in view of the size of MSS Operations.

7. Lack of policy for advertising sale/auction of fixed assets:

Issue Arising*:*
MSS has no policy and procedure for advertising sale/auction of its obsolete or scrap fixed assets except for sale of vehicles, which is necessary to ensure transparency of the disposal process.

Implications:
Non advertisement of sale/auction of obsolete or scrap fixed assets may result in low level of competition and may also raise doubts about the transparency of the process.

Recommendations:
MSS should adopt a policy of advertisement of the sale/auction of obsolete or scrap fixed assets to make the process more competitive and transparent.

Management Response:
Obsolete and scrap items quotations are being received and disposal is made on the basis of highest bidders. However due to materiality, there is no specific policy but due procedure is used for taking bids.

Group Risk

Financial

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'PROCUREMENT SYSTEMS' CONTD..

8. Inadequate procedures for goods received at warehouse:

Issue Arising:

MSS has not implemented effective controls for receipt and issuance of goods. Weaknesses identified are as under:

- ✓ GRN is prepared in Head Office instead of warehouse.
- ✓ GRN does not contain reference to PO against which goods are received to ensure quantity and specification of goods ordered.
- ✓ No GIN is prepared by central warehouse at the time of issuing goods to centres.

Implications:

- ✓ Specification and quantity of goods can not be ascertained at the Head Office.
- ✓ The specification and quantity of goods received cannot be traced back to the purchase order (PO) to ascertain whether the goods that were ordered have been received.
- ✓ In the absence of GIN there is an opportunity of stock loss during transit. Further there is a risk that unauthorized movement in stock may occur

Recommendations:

The management should ensure that all GRNs are prepared in the warehouse at the time of receipt of goods that also contain a reference to the relevant PO. Also an approved GIN showing the specification, quantity and value of goods so issued thereon should be prepared and a copy sent with the goods.

Management Response:

The current system is adequate in view of the large number of MSS Centers. Agreed and will be followed in the future.

9. Pre-numbering of forms:

Issue Arising:

The procurement forms (i.e. GRN and GIN) are not pre-numbered.

Implications:

GRN is a primary document required for payment processing to vendor. The absence of pre-numbered GRN represents weak control over correct payment approval and payment processing to vendors. Moreover the absence of pre-numbered GRN & GIN impairs the ability of management to strengthen the internal control over completeness, accuracy, existence and valuation of stock/inventory.

Recommendations:

GRN should be pre-numbered to ensure that vendors are paid for goods/services which were originally sought to be acquired through approved PO. GIN should also be pre-numbered. These two notes strengthen the internal controls over completeness accuracy, existence and valuation of stock/inventory and further provides an audit trail to Internal Audit and third party reviewers.

Management Response:

For compliance in due course.

Group Risk
Operational

MSS has dedicated HR function.

HR policies and procedures are identified/ documented for certain core areas.

1. Overall Assessment

Low Risk

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's Personnel and Payroll System poses a "low risk". Key issues in this area are:

- ✓ Salary range of CDF is approved by the GB whereas CDF is also a member of GB. A conflict of interest thus arises.
- ✓ Salary and other allowances of CD are approved by MSI. No formal agreement exists between MSI and MSS in this regard.
- ✓ No mechanism for preparing staff time sheets is implemented by MSS
- ✓ HR Manual do not cover policies and procedures for gender balance and employee's long term disability.

2. Overview

MSS has a separate HR function to manage the HR at the entity level. The Human Resource Management is performed by a Senior Manager HR under the supervision of CDF. Personal files are maintained for each employee which contain the necessary documentation. For recruitment, a selection committee is constituted for the purpose by the CD in consultation with the CDF and Operations Director.

3. Risk Category

3.1 Personnel and payroll system

a) Risk Description

Management should have a structure which supports free flow of information, accountability and adherence to organizational policies and procedures to achieve the long term strategic goals of the entity. The Management's philosophy, operating styles and job descriptions should be adequately reflected in the control environment. HR and Personnel Policies and Procedures should cover all the processes that allow the entity to plan, manage and utilize HR to achieve its objectives.

The management should ensure that adequate record is maintained for each employee to enable timely and effective decisions based on such information.

b) Conclusion

Based on our assessment it was observed that MSS's current HR policies are sufficient to cover the existing size and complexity of operations. However, MSS should identify, document and implement policies and procedures for gender balance, employees' long term disability, preparation of staff time sheets and determination of remuneration and benefits for CD and CDF.

Group Risk
Operational

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'PERSONNEL AND PAYROLL SYSTEMS'

1. Salary approval of CDF:

Issue Arising:
Salary range of CDF is approved by the GB. However , CDF is also a member of GB. A conflict of interest thus arises.

Implications:
In the absence of a clear policy on conflict of interest it is possible for employees and other officials to use their powers for their personal benefits.

Recommendations:
MSS should adopt a clear policy on conflict of interest to ensure that members and employees are prohibited from using their official capacity for taking part in decisions involving their personal benefits.

Management response:
CDF is not only the signatory for salaries as it is also approved by the chairman and secretary. Also the salary range is not specifically for CDF it is for Directors.

2. Salary of CD:

Issue Arising:
Salary and other allowances of CD are approved by MSI. No formal agreement exists between MSI and MSS in this regard.

Implications:
In the absence of a formal agreement or any other agreed terms between MSS and MSI , the salary of CD set by MSI may be questioned by donors.

Recommendations:
The GB should be reconstituted to increase the mix of non executive members. Further the salary of the CD and CDF should be set and approved by the reconstituted GB. The salaries and perquisites of all the members of the GB should be separately disclosed in the financial statements of MSS.

Group Risk
Operational

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'PERSONNEL AND PAYROLL SYSTEMS' CONTD..

Management Response:
We do not have formal agreement in this regard but CD salary increase is on the basis of letter issued by the MSI, copy already given to auditors.

3. No mechanism for staff time sheets maintenance:

Issue Arising:
No mechanism for preparing staff time sheets is implemented by MSS.

Implications:
In the absence of staff time sheets it is difficult to allocate personnel costs to different projects and programs. Further time sheets also helps in efficient utilization of employees time and assessment of staff work load and future staff requirements.

Recommendations:
MSS should adopt a proper mechanism for the maintenance of regular staff time sheets.

Management Response:
Mechanism for preparing staff time sheets is already implemented to ensure adequate cost allocation to the project/programs

4. Lack of policies and procedures for gender balance and employee's long term disability:

Issue Arising:
HR manual does not cover policies and procedures for gender balance and employee's long term disability.

Implications:
Policies on gender balance and long term disability are indicative of an organization's sense of social responsibility and attitude towards the different sections of the society. Such policies also have the effect of being able to attract the most competent work force and also ensure compliance with employment laws and code of ethics and better practices. In the absence of such policies MSS is unable to obtain all such associated benefits.

Recommendations:
MSS should develop and implement its policies and procedures on gender equality, long term disability and other related matter.

Management response:
We are working on these policies and will be finalized and approved soon.

4.5 Compliance with Applicable Laws and Regulations

Group Risk
Compliance

The applicable legal framework for MSS includes the Societies Act, 1860, Constitution of MSS, Income Tax Ordinance, 2001, Income Tax Rules, 2002 , EOBI Act, 1976.

Marie Stopes Society has been granted the status of a non-profit organization renewed annually by the office of the Commissioner of Income Tax (Government of Pakistan) under Income Tax Ordinance, 2001.

1. Overall Assessment

Medium Risk

Based on the results of our detailed assessment procedures performed to evaluate this key area, MSS's compliance with laws and regulations poses a **"Medium Risk"** which represent a moderate/manageable risk which can be mitigated by strengthening measure incorporated concurrently with implementation. Key issues in this area are:

- ✓ According to article VI clause 2 of the constitution of MSS, sale or disposal of any property of MSS shall be approved by the members in special general meeting via three fourth majority. However, approval of members was not sought incase of disposal of Sialkot property, sold in 2010.
- ✓ As per article II of constitution, MSS shall establish it principle office at Lahore while currently MSS is operating its principle office at Karachi.
- ✓ Perquisites and allowances provided to employees in the form of medical allowance, salary of domestic servants and transportation is not included in the computation of taxable salary which is in contradiction with section 12 and 13 of the Income Tax Ordinance, 2001.
- ✓ Income tax is withheld from payment of vehicle rentals at 6% instead of 2%. This is in contradiction of section 153 of the Income Tax Ordinance, 2001.
- ✓ The constitution of MSS do not provide for seeking prior approval of Commissioner income tax for any proposed amendment in the constitution as required in rule 213 (h) of the Income Tax Rules, 2002.
- ✓ Risk assessment matrix was not prepared and submitted to donor as required in project RAF-1 guidelines.
- ✓ Funds from USAID was not maintained in interest bearing account as required under USAID regulation "Mandatory Standard Provisions for Non-U.S. Nongovernmental Recipients".

2. Overview

MSS has been registered with the registrar of Joint Stock Companies in 1990 as an independent not-for-profit society under registration number RT/4049/LS/90/762.

MSS is exempt from the levy of income tax under clause 58 (3) of part 1 of the 2nd schedule to the Income Tax Ordinance, 2001 and holds an exemption certificate to that effect issued by the Federal Board of Revenue.

The applicable legal framework for MSS includes the Societies Act, 1860, Constitution of MSS, Income Tax Ordinance, 2001, Income Tax Rules, 2002 , EOBI Act, 1976.

MSS is a sub-recipient of MSI under the USAID-funded SIFPO project and accordingly the terms of contract are required to be complied with.

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Group Risk
Compliance

3. Risk Category

3.1 Compliance with Terms, Applicable Laws and Regulations

a) Risk Description

The entity is in compliance with agreement terms and pertinent laws and regulations.

b) Conclusion

Except for the noted non-compliances, we observed the entity to have substantially complied with laws and regulations.

Group Risk
Compliance

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS'

1. Non compliance of constitution:

Issues Arising:

- ✓ According to article VI clause 2 of the constitution of MSS, sale or disposal of any property of MSS shall be approved by the members in special general meeting via three fourth majority. However, approval of members was not sought incase of disposal of Sialkot property, sold in 2010.

- ✓ As per article II of constitution, MSS shall establish it principle office at Lahore while currently MSS is operating its principle office at Karachi.

Implications:
It represents non-compliance with the constitutions of MSS

Recommendations:
The management should ensure that all the provisions of the constitution of society have been complied with.

Management Response:
The resolution was presentenced in GB meeting and endorsed by the GB members. Further MSS registered office is situated in Lahore. Support Office is in Karachi.

2. Incorrect calculation of withholding tax from taxable salary of staff:

Issue Arising:
Perquisites and allowances provided to employees in the form of medical allowance, salary of domestic servants and transportation are not included in the computation of taxable salary which is in contradiction with section 12 and 13 of the Income Tax Ordinance, 2001.

Implications:
It results in reduced slab rates for salary income tax calculation; consequently resulting in less tax being deducted from relevant salaries. Further, it may also result in fines and penalties from tax authorities.

Group Risk
Compliance

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS' CONTD..

Recommendations:
Perquisites and allowances provided to employees should be included in the computation of taxable salary.

Management response:
Minor difference in few cases but at year end its as per FBR law.
a) our medical policy is limited to specific facilities and does not cover the OPD. Hence medical allowance included in salary. (b) Its already followed except in few cases in order to facilitate their tax adjustment.

3. Incorrect deduction of income tax from vendors of rental vehicles.

Issue Arising:
Income tax is withheld from payment of vehicle rentals at 6% instead of 2%. This is in contradiction of section 153 of the Income Tax Ordinance, 2001.

Implications:
This has led to non compliance with the relevant provision of Income Tax Ordinance, 2001.

Recommendations:
Withholding income tax should be collected/ deducted in a manner as prescribed in the Income Tax Ordinance, 2001.

Management Response:
As per SRO600(I)91 dated July 2, 1991 2% is applicable on goods transport business. Noted for compliance.

4. No prior approval of FBR was obtained for change in constitution:

Issue Arising:
The constitution of MSS do not provide for seeking prior approval of Commissioner Income Tax for any proposed amendment in the constitution, as required in rule 213 (h) of the Income Tax Rules, 2002.

Implications:
It may result in cancellation of NGO status granted to MSS under rule 212 of the Income Tax Rules, 2002.

Group Risk
Compliance

ISSUES PERTINENT IN ARRIVING AT OUR RISK RANKING FOR 'COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS' CONTD..

Recommendations:
The constitution of MSS should be changed to make it mandatory for all the amendments to the constitutions are made with prior approval of the Commissioner Income Tax.

Management response:
The said amendment was made up to 18-03-2009 prior to the grant of approval by FBR vide DG/58(3)/MSS/SO-II/8056 dated 16-06-2009.

5. Non compliance of donors' regulations:

Issue Arising:
- ✓ Risk assessment matrix was not prepared and submitted to donor as required in project RAF-1 guidelines.
- ✓ Funds from USAID was not maintained in interest bearing account as required under USAID regulation "Mandatory Standard Provisions for Non-U.S. Nongovernmental Recipients".

Implications:
Non compliance to provisions of project agreement and donor's regulations may cause ineligibility of expenditures from donors.

Recommendations:
Concerned project staff should be properly trained to ensure compliance with project agreement and relevant donor's regulations.

Management Response:
Draft risk management policy, risk register and terms of reference for risk management committee have all been prepared and will be implemented by the end of November 2012. Further As per USAID applicable guidelines we are not required to open a separate bank account for USAID project, but to follow the MSI's "Cash is Cash" policy, and no separate funds for USAID are received by MSS Pakistan. The funds received from MSI are kept in an interest bearing account.

Group Risk
Strategic

Marie Stopes Society (MSS) was registered in 1991 as a non-profit, a Social Enterprise to provide reproductive health services with a development perspective.

Beginning with one center in 1992, today MSS has expanded to more than 84 information and service delivery centers across the four provinces of Pakistan

1. Overall conclusion

Low Risk

Based on our quantitative and qualitative analysis of MSS, the ability of MSS to attract donors, the capacity to expand thematically; as well as efficiently and effectively utilize funds, poses **"Low risk"**.

The following key factors are considered in arriving at "low risk":

- ✓ The total absorption capacity is analyzed in terms of quantitative and qualitative aspects.
- ✓ The quantitative analysis, as mentioned in table 4.0 below shows an aggregate annualized figure of USD 5.32 million (PKR 447.894 million) for all the projects executed by MSS during the last five years
- ✓ The quantitative analysis and the resultant annualized figure for all projects which is estimated at USD 5.32 million, is supplemented and complemented by qualitative analysis . Qualitative analysis is made in terms of the ability of MSS with respect to:

  - The ability of the core program activities to expand thematically
  - Project efficiency and effectiveness
  - Efficiency and effectiveness of financial systems
  - Efficiency and effectiveness of Procurement function
  - Core management

2. Overview

The objective of this 'Absorptive Capacity Analysis' is to enable ASP-RSPN to assess the recipient's absorptive capacity for the effective utilization of different level of funding. We have adopted a 'chartist approach' towards assessing MSS's absorptive capacity. This approach bases past performance and their analysis to assess the current absorptive capacity. In this regard we have identified two aspects, namely:

- ✓ Quantitative analysis
- ✓ Qualitative analysis

Group Risk
Strategic

MSS has and maintains Public Private Partnerships with:-

- Ministry of Population Welfare (MoPW)
-Ministry of Health (MoH)
-Turbat Headquarter (Baluchistan)

3. Risk Category

3.1 absorptive capacity

a) Risk Description

The entity has the absorptive capacity to effectively utilize different level of funding

b) Conclusion

MSS has the absorptive capacity to effectively utilize different level of funding.

4. Absorptive capacity analysis

a) Quantitative analysis

Quantitative analysis has been based on:

- ✓ Annualized absorption burn rates
- ✓ Ability to attract other donors
- ✓ Sector Wise analysis :
  - Mother Health.
  - Family Planning.
  - Research.

Group Risk
Strategic

MSS has received the support of donors that include European governmental donor agencies, private international trusts, and American Private Foundations and Multinational Corporations

Quantitative analysis contd..

Annualized absorption/burn rates

MSS has received funding from international and national donors. Some donors had a restricted agenda while some funds were of unrestricted nature. The table below 4.0 represents expenditure pattern of MSS over the last five (5) years. This pattern in isolation does not give a complete picture of the absorption capacity of MSS. However when read with other factors, e.g., ability to attract other donors to existing projects and timely completion of projects; gives an insight into expenditure pattern and burn rates of MSS.

Table 4.0: Average annualized absorptive capacity

Particulars	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012(3 quarters)	Total expenditure over the period	Period	Average annualized expenditure per year
Annual total expenditure in PKR	466,190,860	481,872,378	621,869,586	426,820,554	242,719,939	2,239,473,317	5	447,894,663.35
Annual total expenditure in USD	6,257,595	5,798,705	7,243,676	4,724,079	2,578,013	26,602,069	5	5,320,413.74

Note: Any grants in foreign currency have been converted and reported at PKR at the average annual exchange rates for respective years (US dollar, Pound sterling, Euro).

The table below 4.1 below shows an analysis of project wise budget versus actual funds utilized to assess the funds absorption capacity of MSS against the funds available to execute a project over a period of time.

4.6 Absorptive Capacity Analysis

Group Risk
Strategic

Table 4.1: Project Wise Funds Utilized

S/No	Donor	Project	Total			2008	2009	2010	2011	2012
			Budgeted Expense (2008-12)	Actual funds utilized (2008-12)	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %
1	David Lucile & Packard Foundation	Reducing maternal mortality and morbidity attributed to unsafe abortion in Pakistan	$500,000	$491,706	98.3	-	73.5	124.5	-	-
2	David Lucile & Packard Foundation	To increase use of contraception for spacing pregnancies among disadvantaged communities in Pakistan	$591,690	$209,404	35.4	-	-	-	59.7	5.2
3	Large Anonymous Donor	Expanding Access to and Utilization of Family Planning and Safe Abortion Services to meet the Needs of Underserved Couples in Pakistan	$17,070,218	$16,330,230	95.7	82.7	97.6	105.8	-	-
4	Large Anonymous Donor	Expanding Access to and Utilization of Family Planning and Safe Abortion Services to meet the Needs of Underserved Couples in Pakistan	$10,000,000	$5,409,432	54.1	-	-	-	81.7	34.6
5	DFID	Prevention of Maternal Death from Unwanted Pregnancy	£851,832	£462,066	54.2	-	-	-	94.0	17.3
6	Family Health International (FHI)	A Prospective Observational Study of the Clinical Performance of Femplant in Pakistan	$55,596	$37,306	67.1	-	-	-		67.1

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Group Risk
Strategic

Table 3.1: Project Wise Funds Utilized

S/No	Donor	Project	Total			2008	2009	2010	2011	2012
			Budgeted Expense (2008-12)	Actual funds utilized (2008-12)	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %
7	MSI	Implementation and Development of a Long Term Family Planning Methods Programme	PKR 26,742,156	PKR 26,682,417	99.8				99.8	
8	EC	Improving the sexual and reproductive health (SRH) status of underserved people in selected areas of the districts of Quetta (Balochistan) and Swat (NWFP) in Pakistan	€ 920,187	€ 791,117	86.0	86.9	80.4			
9	EC	Improvement of Maternal and Reproductive health among low income women in Pakistan through partnership with Government and Community (Pakistan)	€ 987,094	€ 723,914	73.3	74.4	68.9	76.0		
10	Programme for Appropriate Technology in Health (PATH - USA)	To lead introduction planning activities for depo-subQ provera in Uniject	$48,346	$31,264	64.7					64.7
11	Programme for Appropriate Technology in Health (PATH - USA)	to expand family planning options through successful country-level introduction of a new subcutaneous (SC) formulation of Depo-Provera® in a single-use injection system, the Uniject® device	$8,232	$4,006	48.7		48.7			

Group Risk
Strategic

Table 4.1: Project Wise Funds Utilized

S/No	Donor	Project	Total			2008	2009	2010	2011	2012
			Budgeted Expense (2008-12)	Actual funds utilized (2008-12)	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %	Burn Rate %
12	RAF 1 (DFID)	Evidence for Innovating To Save Lives	PKR 38,246,378	PKR 34,876,254	91.2				95.1	86.8
13	RAF 2 (DFID)	Post abortion Care - From Pledge to Practice	PKR 49,361,416	PKR 14,533,297	29.4				7.6	73.0
14	Pathfinder	Pathfinder	PKR 9,098,713	PKR 5,306,295	58.3					58.3
15	OMV	MCH Project in Salehpat (Sukkur) & Miano Area	PKR 25,719,210	PKR 24,986,326	97.2	97.4	105.7	79.0		

Conclusion:

The table 4.0 above represents the average annualized funds absorptive capacity of MSS which stands at USD 5.32 million (PKR 447.894 million) which can be considered a healthy annualized absorption of funds.

The table 4.1 above represents project wise funds utilized in comparison with the budgeted expenditure for the last 5 years i.e. (2009-2012), the projects in serial number 2, 4, 5, 11, 13 & 14, have an individual burn rate below 60%, which is well below the average burn rate of all the projects- 70%. Keeping other factors constant this indicates possible improvements areas in budgeting and operational planning where MSS can further improve to overcome the issue of apparently slow burn rates- as observed in aforementioned projects. Included amongst the aforementioned slow burn rate projects is one from anonymous donors. Such type of anonymous donations is not restricted in nature and recipient usually has the discretion to utilize per its own program. However, even in such type of unrestricted funds an internal indicator of healthy burn rate should be considered.

Ability to absorb other donors/funds into existing sectors of operations

MSS has been able to attract other donors to existing sectors. The following table approximates this tendency over a period of 4.75 (4 years and 3 quarters) years.

Group Risk
Strategic

Table 4.2 Quantitative analysis

S.No	Particulars	Mother Health (2008-2012)	Family Planning (2008-2012)	Research (2011-2012)
1	Funds committed by a donor (s) to start a sector	32,813,304	433,377,556	19,178,301
2	Other donors contributing to same sector (over 4.75 years)	170,315,084	1,559,272,464	24,516,608
3	Number of years (estimated)	4.75	4.75	1.75
4	Annualized absorption-PKR (row 2 / 3)	35,855,807	328,267,887	14,009,490
5	Additional annualized funds absorbed into a sector (row 2 / 1) % age	519.04	359.80	127.84

Note: Any grants in foreign currency have been converted and reported at PKR at the average annual exchange rate for the relevant year.

Conclusion:

The above table 4.2, shows quantitative analysis of different sectors in which MSS provides social services. In percentage terms "Mother Health" sector ranks first (519.04 %) followed by the "Family Planning" Sector.

In absolute terms the annualized absorption (PKR 328,267,887) in the "Family Planning" sector ranks first as the MSS has performed its major operations in the this sector followed by the "Mother Health" sector which has annualized absorption of PKR 35,855,807. It is worth mentioning that from 2008 till 2012 MSS had two major sectors "Family Planning" and "Mother Health". However to enhance the outreach of its program and efficiently implement the operations MSS attracted its donors towards the "Research" sector. Sector wise analysis discussing the ability to attract other donors has been provided in the following paragraphs:

Group Risk
Strategic

Sector Wise Analysis

Mother Health:

Mss started its mother health project with the single donor -EC in the year 2008 with a donation of PKR 32,813,304/- for the year 2008. In period to follow 2009-2012, MSS has succeed to attract other donors like "David Lucile & Packard Foundation" and "RAF (BC)" towards this sector; duly receiving grants worth PKR 170.315 Million- notable expansion and absorption in the sector.

Family Planning:

Family planning remains the center of attraction for MSS as more than 85% of the annualized absorption of the MSS has been in the family planning sector. Over the last four (4) years MSS has attracted donors towards this sector receiving about 1,559 Million PKR in the form of donations and grants.

Research:

Research has been relatively a new sector. This sector started its operations in the year 2011 with a grant worth PKR 19,178,301/-. Within a year and a half MSS has been able to attract other donors duly receiving a grant worth 24.5 Million PKR.

b) Qualitative analysis

Qualitative analysis can be made in terms of following functions.

- Ability to expand thematically
- Project efficiency and effectiveness
- Financial systems
- Procurement function
- Core management

Group Risk
Strategic

Qualitative analysis contd..

Ability to expand thematically

MSS has grown considerably since its inception. The figure below 4.3 depicts the thematic expansion of MSS operations and achievements since its inception. Synopsis of year wise expansion as achieved by MSS is as follows:

- 1990 - MSS started its independent activities as a nonprofit organization
- 1992 - MSS opened its first reproductive health center in Karachi, to educate and provide counseling facilities regarding sexual health to the general public.
- 1994 - MSS started its "outreach" services to remote areas.
- 1999 - MSS became one of the first non-governmental Reproductive Health service provider to achieve ISO 9001 certification for their quality services in the field of reproductive health.
- 2001 - MSS started its Youth Advocacy Network (YAN) and Community Advocacy Network (CAN) for social mobilization.
- 2004 - MSS entered into partnership with government in setting up 18 HIV/AIDS Voluntary Counselling and Testing (VCT) Centres; in the same year MSS initiated its call centre for information on Reproductive Health.
- 2005 - MSS grew to a network of 39 centres in 24 districts.
- 2006 - MSS set up a fleet of four mobile service units in order to expand its services to the most for flung populations.
- 2007 - MSS upgraded its call centre into a 24/7 facility.
- 2008 - MSS received certification of Pakistan centres of Philanthropy and also launched its advocacy website SRH matters, a bilingual website on sexual and reproductive health matters with online confidential professional service. In the same year MSS initiated SURAJ, its 100 member Private provider Partnership in Sindh & Punjab and received the Mari Stopes International coveted 'infection Prevention' award.
- 2009 - MSS expended its delivery facilities to 100 across 73 districts of Pakistan followed by MSI achievement award for increasing 'CYPs that count'.

Group Risk
Strategic

Qualitative analysis contd..

- 2010 - MSS research findings were presented at "The 1st International Congress on Women's Health and Unsafe Abortion (IWAC 2010) in Bangkok, Thailand" held from 20-23 January 2010.
- 2011 - MSS achieved a milestone with six of its centers of Karachi district (namely New Karachi, Nazimabad, PECHS, Gulshan-e-Iqbal, Korangi and Orangi) received the ISO 9001.

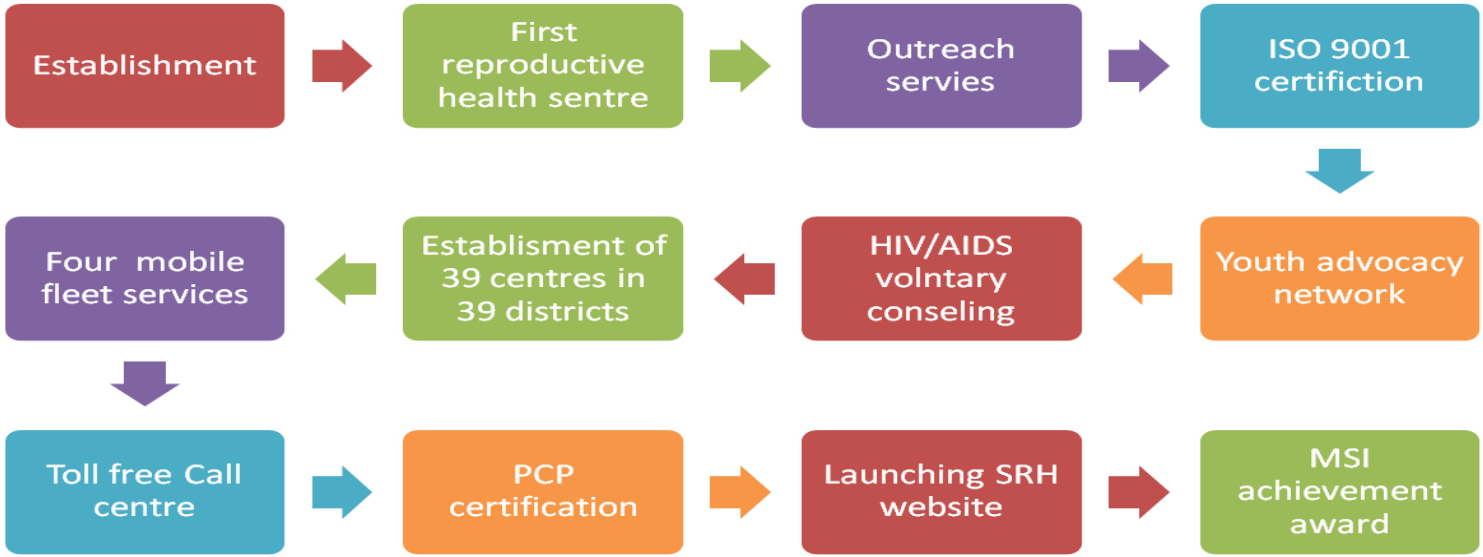

Figure 4.3: Ability to expand thematically

Group Risk
Strategic

Qualitative analysis contd..

Conclusion

From analyzing the above figure, it appears that MSS has the capacity and the potential with respect to thematic expansion to utilize potential grantor resources.

Project efficiency and effectiveness

MSS has shown satisfactory performance in completing projects within the agreed timelines. Table 4.4 below shows the project completion analysis as to whether timelines were followed as agreed with donors/stakeholders.

Table 4.4: Project Completion Analysis

Sr. #	Project	Donor	Start At	Ends At	Project Status
Grants through Marie Stopes International (MSI)					
1	Phase-IV	David Lucile & Packard Foundation	Jul 2009	Jun 2011	Completed
2	Phase-V	David Lucile & Packard Foundation	Sep 14, 2011	Aug 14, 2014	On going
3	NEP Phase I	Large Anonymous Donor	Oct 1, 2007	Feb 28, 2011	Completed
4	NEP Phase II	Large Anonymous Donor	Mar 1, 2011	Dec 31, 2012	On going
5	PMDUP	DFID	Jul 21, 2011	Jun 30, 2016	On going

Qualitative analysis contd..

Group Risk
Strategic

Table 3.4: Project Completion Analysis

Sr. #	Project	Donor	Start At	Ends At	Project Status
6	Research	Family Health International (FHI)	Sep 15, 2010	Jan 31, 2013	On going
7	Choice Camp	MSI	Jan 1, 2011	Dec 31, 2011	Completed
8	EC	EC	Dec 11, 2004	Jun 10, 2009	Completed
9	EC SMH	EC	Apr 1, 2007	Mar 31, 2010	Completed
In country Raised Grants					
1		Programme for Appropriate Technology in Health (PATH - USA)	Oct 1, 2010	Jul 31, 2012	Completed
2		Programme for Appropriate Technology in Health (PATH - USA)	Jul 15, 2009	Oct 16, 2009	Completed
3	Research	RAF 1 (DFID)	Oct 25, 2010	May 31, 2013	On going
4	Advocacy	RAF 2 (DFID)	Jun 15, 2011	May 14, 2013	On going
5		Pathfinder	01-Feb-12	31-Jan-13	On going

USAID FROM THE AMERICAN PEOPLE

Group Risk
Strategic

Qualitative analysis contd..

Table 4.4: Project Completion Analysis

Sr. #	Project	Donor	Start At	Ends At	Project Status
6		OMV	Jan 1, 2008	Dec 31, 2008	Completed
7		OMV	Jan 1, 2009	Dec 31, 2009	Completed
8		OMV	Jan 1, 2010	Jun 30, 2010	Completed

Conclusion

Timely completion is a critical factor and very actively complements the absorptive capacity of an entity. The above table 4.4 depicts MSS ability to timely complete its projects and shows its ability to involve other donors/stakeholders in the ongoing projects and its operations expansion.

Financial system

MSS currently uses SUN system (accounting software) for its accounting function which is based on double entry system and has the capacity to operate in a multi donor environment. The financial system fulfills the reporting requirements usually required in a multi donor environment.

Conclusion

Financial system is a critical support function to enable the management to implement program agenda. MSS's financial system enhances the ability of the management to absorb more funds in a sector and achieve vertical and horizontal growth.

Group Risk
Strategic

Qualitative analysis contd..

Procurement function

MSS has been able to implement projects in geographically dispersed locations. This required the entity to source procurements, sort out related logistic issues and made it available to the end user so as not to compromise the timelines of planned project completion.

Conclusion

Procurement function actively contributes to entity's ability to complete projects within time lines and the project's efficiency and effectiveness by affecting 'absorption capacity' of the entity. Analyzing specifically in context of 'absorption capacity with respect to USAID funds ', the procurement process should include USAID rules and regulations. For details of gaps between current policies and procedures and those required by USAID regulations, please refer to Procurement section.

Core management

Certain staff of MSS is hired as per needs/requirements associated with specific projects. However the core management of MSS has largely remained the same for the last four to five years. This core management includes CD, CDF and program /project heads. The core management has played a key role in the past by absorbing more funds in relevant projects. The learning curve for the core management has improved by working with different donors under different projects.

Conclusion

The core management has worked with USAID indirectly as an implementing partner. However, analyzing specifically in context of 'absorption capacity with respect to proposed USAID funds ', the core management needs to comprehend the technical and financial requirements attached with USAID rules and regulations.

ANNEXURES

Annexure-A

List of key persons interviewed

Name	Designation
Mr. Umer Farooq	CDF
Dr. Ashfaq Ahmed	Deputy GM (outreach) USAID Project
Mr. Ghaseel Asim	Manager Supply Chain
Ms. Insha Hamdani	Sr. GM Communication & New Business Development
Mr. Waseem Akhter	Finance Controller
Mr. Afzal Khan	Manager Accounts & Audit
Mr.ShiraZ Ahmed Siddiqui	Deputy Senior Manager HR
Mr. Syed Rizwan Ali	Manager Compensation & Benefits
Muhammad Zeeshan	Manager Financial Analysis & Reporting
Mr. Tariq Ansari	Sr. GM Internal Audit
Mr. Asif Raza	Manager Internal Audit
Mr.Waqasuddin	Accounts Officer (fixed assets)
Mr.Imran Zahiruddin	Sr. Deputy Manager IT

Annexure-B

List of key documents reviewed

S. No	Documents Reviewed
1	Certificate of registration of the entity
2	Policy & procedures Manuals of MSS
3	Organization chart
4	Minutes of meetings of Members and GB
5	List of members of GB
6	CVs and job descriptions of key staff
7	Office Operations Manual
8	Standard procurement forms and cash, bank and adjustment vouchers
9	Receipt/ issue notes and purchase requisitions
10	List of employees/ salary sheets
11	Statement of all expenses of MSS
12	Chart of accounts
13	Audited financial statements along with auditors' reports for year ended December 31, 2011
14	Independent Auditors report on Project Accounts of RAF project
15	Annual report of the MSS
17	Data for Action Plan Report for USAID
18	Fixed asset/ inventory sheets.
19	Tax Exemption Certificate
20	List of suppliers and their registration certificates
21	Warehouse Reports
22	PCP Certificate

Annexure-C

Risk Matrix Description

S. No	RISK RANKING	DESCRIPTION
1	High Risk	Represents a major risk which can be mitigated by adopting a strengthening and restructuring strategy with involvement of the key management and active oversight role of GB and ASP-RSPN.
2	Medium Risk	Represent a moderate/manageable risk which can be mitigated by strengthening measure incorporated concurrently with implementation.
3	Low Risk	Capacities and systems fulfill minimum requirements Capacities and systems exceed minimum requirements

Annexure-D

Status of compliance with the prior auditors' observations

S. No.	Observation of prior period audit	Management Action Plan	Current Status	Management Remarks
1.	Absence of Board Audit Committee has been observed to oversee the internal audit department and review both internal and external audit report. ***(RAF project audit report query.)***	No action taken so far.	Unresolved	Project audit report was received on 31st October, 2012, a meeting will be conducted within a day or two in which proper action plans will be developed.
2.	Internal Audit Plan does not include risk assessment and review of RAF projects. ***(RAF project audit report query.)***	No action taken so far.	Unresolved	Project audit report was received on 31st October, 2012, a meeting will be conducted within a day or two in which proper action plans will be developed.
3.	Certain stocks having expiry within four months at Hala, Hyderabad, Kotri, Nazimabad, Nosheroferoz, Thatta has not been included in the a separate list, which may result in over statement of stock as stocks may get expire without any notice. ***(Management Letter 2011 point No. 2.1)***	Separate list will be prepared and stock age analysis will be conducted.	Query is partially resolved because financial guidelines (14.7.3) require monthly statement for such items.	Separate stock statements are made for stock near end to expiry and on need basis.

Annexure-D-1

Status of compliance with the prior auditors' observations

S. No.	Observation of prior period audit	Management Action Plan	Current Status	Management Remarks
4.	As per section 20 of financial guidelines, income generated by the centres must deposit their whole income on daily basis .It is cleared from the afore-referred section, that no amount there from shall be utilized in any other purpose. However during our centre's visits, we have observed instances where petty cash balance is nil with the centre, and to meet the centre expenses, amount generated by income is used for their defrayal.***(Management Letter 2011 point No. 5)***	To provide interim advance and conduct regular reconciliation of income generated and deposited in the bank.	Unresolved	100% absolute assurance is impossible as there are unforeseen circumstances which may lead to partial compliance, but we have maintained a check and balance system through properly reviewing justifications of differences if any arises.
5.	Viruses and Trojans were observed on MSS IT infrastructure Network.***(Management Letter 2011 point No. 6.1)***	Centralised control on server level will be implemented.	Unresolved	Will be implemented after implementation of domain model and centralized IT management (HR required)
6.	We have observed that there is no documented Business Continuity Plan, the organization's activities and processes may be significantly impacted in the event of a disaster/unforeseen event. ***(Management Letter 2011 point No. 6.2)***	Funds will be allocated and DRP consultant will be hired for the purpose and BCP will be documented.	Unresolved	Will be done in 2013
7.	We have observed that DRP (Disaster Recovery Plan) is not sufficiently documented. ***(Management Letter 2011 point No. 6.3)***	Funds will be allocated and DRP consultant will be hired for the purpose and BCP will be documented.	Unresolved	Will be done in 2013

Annexure-D-2

Status of compliance with the prior auditors' observations

S. No.	Observation of prior period audit	Management Action Plan	Current Status	Management Remarks
8.	We have observed that password complexity has not been configured. ***(Management Letter 2011 point No. 6.4)***	Will upgrade from workgroup to domain to implement the password complexity	Unresolved	Will be implemented after implementation of domain model and centralized IT management HR required
9	We have observed that backups are not encrypted. ***(Management Letter 2011 point No. 6.5)***	We have plans to implement encrypted backups by 2013.	Unresolved	We have plans to implement encrypted backups by 2013.

Annexure-E

Group Risk Matrix

S. No.	Group risk	Key Areas	Color
1.	Strategic	Control Environment, Absorptive Capacity Analysis	Blue
2.	Financial	Financial Management and Accounting, Procurement System, IT	Green
3.	Operational	Personnel and Payroll System	Orange
4.	Compliance	Legal/Compliance with Applicable Laws and Regulations	Red

Scope of Work

- Provide a detailed analysis of the MSS's systems that address whether the accounting, record keeping and overall financial management systems meet the applicable laws, regulations and standards in 22 CFR 226, Federal Acquisition Regulations (FAR), USAID Acquisitions Regulations (AIDAR), OMB Circulars, and formal Agency policies and Guidance as applicable.

- Review and test potential recipient's internal controls, including segregation of duties, handling of cash, loaning procedure, contracting procedures, personnel and travel policies to ensure reasonableness and in accordance with applicable cost principles.

- Review and test assets management and procurement systems, as well as policies and procedures for administration and monitoring of loan accounts.

- Perform specific analysis of the absorptive capacity of MSS and will report specific measures required to manage the USAID funds at a certain level.

- Review, test and report on the organization's systems, policies and procedures which shall reflect the usefulness of the financial data, accuracy and integrity.

•Review the organization's established roles and responsibilities to perform and the ability to maintain the necessary management competencies in planning and carrying out assistance programs, and that the organization will practice mutually agreed upon methods of accountability for funds or other assets provided by USAID and has institutional and management framework for sustainability.

- Analyze the organization's technical capabilities and quality assurance capabilities.

- Perform quality control test to ensure that sufficient competent evidence is obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for findings/ observations/ recommendations of policies/procedures and other pertinent internal controls.

- ASP-RSPN shall schedule and attend the entrance and exit meetings with MSS and the CA firm.

- Communicate with the organization via written correspondence to schedule time for on-site reviews as well as provide draft report of initial findings timely to both the MSS and ASP-RSPN.. The ASP-RSPN shall notify the ASP AOR to attend meetings if deemed necessary.

- Provide an opinion on the current systems and control environment of MSS. In addition to that the report shall also include an opinion regarding capability of MSS to manage the funds of USAID.

- Provide the ASP AOR with a detailed written report of its findings, conclusions and recommendations of corrective action of the MSS's internal systems and processes. The report of findings should give a complete analysis of the organization's systems, internal environment and its absorptive capacity in term of funding and human resources.

- Make recommendations needed to be implemented to the MSS in writing in order to strengthen internal control procedures, accounting and financial management and financial intermediation systems that are in place.

- Ensure that for the report and supporting paper work, all quantities and monetary amounts involving calculations are footed and cross-footed; and all factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting working papers.

- Incorporate the organization's management comments on the findings and observations of the Pre-award assessment.

- ASP-RSPN shall schedule and attend the entrance and exit meetings with MSS and the CA firm.

- Communicate with the organization via written correspondence to schedule time for on-site reviews as well as provide draft report of initial findings timely to both the MSS and ASP-RSPN. The ASP-RSPN shall notify the ASP AOR to attend meetings if deemed necessary.

- Provide an opinion on the current systems and control environment of MSS. In addition to that the report shall also include an opinion regarding capability of MSS to manage the funds of USAID.

- Provide the ASP AOR with a detailed written report of its findings, conclusions and recommendations of corrective action of the MSS's internal systems and processes. The report of findings should give a complete analysis of the organization's systems, internal environment and its absorptive capacity in term of funding and human resources.

- Make recommendations needed to be implemented to the MSS in writing in order to strengthen internal control procedures, accounting and financial management and financial intermediation systems that are in place.

- Ensure that for the report and supporting paper work, all quantities and monetary amounts involving calculations are footed and cross-footed; and all factual statements, numbers, conclusions and monetary amounts are cross-indexed to supporting working papers.

- Incorporate the organization's management comments on the findings and observations of the Pre-award assessment.

Notice to the intended users/ readers of the report

Nature of assignment

RMDM is appointed by ASP-RSPN to conduct the pre award assessment of MSS. This assessment is limited in nature and does not constitute an audit of the financial statements of MSS

Addressees of the report

This assessment reports is meant for the consumption of ASP-RSPN and MSS. It is not to be distributed or to be referred or quoted, in whole or in part, without USAID's prior written consent.

Disclaimer

The Firm does not accept or assume responsibility to anyone other than the addressees of this report, for its work, for this report or for any judgments, findings, conclusions, recommendations or opinions that the Firm has formed or made. The work was undertaken and this report was issued, on agreed terms of engagement, in order that the Firm might state to the addressees those matters on which it agreed to report and for no other purpose. In accordance with its policy, RMDM advises that neither it nor any partners or employees undertakes responsibility arising in any way whatsoever, to any person other than the management of the Client in respect of the matters dealt with in this report, including any errors or omissions therein, arising through negligence or otherwise, howsoever caused.

Cut off

This report contains our findings, based on field work up to November 14 2012. We have not undertaken to update our report for events or circumstances after the mentioned date.