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**The Government of Norway's International Climate and Forest Initiative
Royal Norwegian Ministry of Climate and Environment
PB 8013 Dep
0030 Oslo, Norway**

Attention: Morten Nordskog

GGGI Management Response to the Report of Actual Findings - GGGI Ethiopia, Indonesia and Seoul Headquarters Assessment undertaken by Deloitte

On 4 February 2014, the GGGI Secretariat received three assessment reports, commissioned by the Government of Norway, of GGGI's corporate functions at Headquarters level, as well as the Indonesia and Ethiopia country programs/offices.

According to the assessment reports of Ethiopia and Indonesia, the primary objective was to assess the effectiveness of internal controls related to the financial management of the MFA/embassy funding to GGGI.

The assessment took place in three locations - Seoul Headquarters (November 11-23, 2013), Indonesia, and Ethiopia (November to December 2013) and focused on operations during the period January to September 2013. While there was a closing meeting with assessors at the end of their fieldwork, this is our first opportunity to comment on the three assessment reports. We agreed to a 12 February deadline to offer our detailed responses (*attached below*).

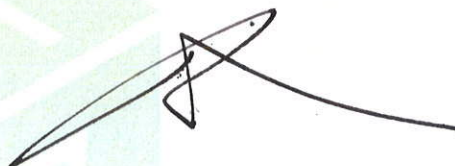
The GGGI Secretariat welcomes the overall positive assessment of our operations in the Seoul Headquarters and integrity in the management of our funds, answering the issues raised in an earlier audit of K-GGGI by the Korean Bureau of Audit and Inspection (BAI). We also welcome the recommendations for improvements in our financial management system that links with and supports the projects in Ethiopia and Indonesia. We view this as an important contribution to the continuing progress that GGGI, as a new organization in its establishment phase, has made and continues to make toward becoming a mature institution that is prudently managed according to a clear set of rules and regulations that are comparable with other international organizations.

It is important to note that many of the shortcomings mentioned in the assessments have been or are being addressed by the new financial management system that was being rolled out at

the time of the assessment. Starting October 2013, GGGI had already begun implementing new and enhanced internal controls and procedures in the areas of budget management, procurement, contract monitoring, and accounting. This includes the issuance of a new finance policy, a procurement policy with detailed guidelines, developing a detailed work plan as part of the budgeting process, monitoring the budget against actual cash flow on a monthly basis, and implementing a new accounting system. We shall continue to improve operations across the whole of our new and growing organization.

Thank you very much for the opportunity to offer our response.

Yours sincerely,



Robert L.T. Dawson
Deputy Director-General
Management and Administration
Global Green Growth Institute

Enclosures: GGGI Response to the Report of Actual Findings of GGGI Assessment- Program in Ethiopia (ETH) and Indonesia (INO)

CC: Howard Bamsey, Director-General

GGGI Response to the Report of Actual Findings of GGGI Assessment - Program in Ethiopia (ETH) and Indonesia (INO) -

Some of the findings in the assessment reports are more akin to observations about country operations and it is our understanding that these do not require a response from management, nor any further action from us. Other findings of the assessment listed below require a detailed response from management, as indicated below.

1. GGGI Management Response to the Individual Findings

The following table summarizes some of the changes in our accounting software that were under way at the time of the assessment. They offer a useful response to multiple questions (see reference column) and indicate the improvements in our accounting practices enabled by the new software.

#	IFLOW (OLD)	EMAX (NEW)	REFERENCE
1	Single currency – (KRW) Platform – cannot produce GL by source currency or transactional currency. Foreign currency translation done manually on an ad hoc basis which caused misapplication of exchange rates.	Multi-currency – (USD) Platform – can produce GL by source currency. Foreign currency translation from source currency to USD done systematically using spot rates.	B.(4)
2	Does not interface with GGGI IS system. (Disbursement Transactions are captured manually).	Interfaces with GGGI IS system. (Disbursement Transactions are captured automatically) – reducing the possibility of missing transactions.	B.(3)
3	Cannot produce Trial Balance and Balance Sheet by country office and only able to track transactions manually.	Cannot produce Trial Balance and Balance Sheet by country office but can track transactions by project code including of those in Balance Sheet.	A.(1) and B.(4)
4	Quasi-accruals, prepayments, and depreciation are manually recorded in KRW and not USD which has resulted in a discrepancy during currency translation. Most of IFLOW features are in-built in Korean language making it difficult to operate for international staff.	Accruals, prepayments, and depreciation are recorded in USD and eliminates discrepancies in allocation as it is in USD. Emax works entirely in English making it suitable for use by international staff.	C.(4)
5	There is no budget module and budgets have to be tracked manually.	There is a budget module, budgets can be uploaded; actual versus budget report can be produced.	A.(4)

A. Budgeted versus actual amounts and activities

1. **Deloitte Findings:** (ETH) There is no specific balance sheet for GGGI Ethiopia.
GGGI Response: All transactions related to individual projects have been tracked and accounted via a project code, including those related to Ethiopia and Indonesia. We welcome the recommendation to build capabilities in our accounting software to extract a separate balance sheet for individual projects. We will explore this during the implementation of Enterprise Resource Planning (ERP) system in 2014.

2. **Deloitte Findings:** (ETH) There are expenditures with a total sum of USD 78,856 that are not included in the accounting system and considered in transit.
GGGI Response: At the time of the assessment, the USD 78,856 was going through the process of reconciliation between two different accounting software systems (the old - IFLOW and the new - EMAX). This process is now being completed as part of the year-end financial closing. It is important to note that this amount was identified and was always being tracked by both the finance team in Seoul as well as the Ethiopian project team. The amount is now fully accounted for in our system.

3. **Deloitte Findings:** (ETH) Underspensing of 86% as execution of activities is delayed; no detailed work plan that is clearly aligned with the approved budget.
GGGI Response: In line with OECD-DAC principles of harmonization, alignment and local ownership, the work planning process is being led by the Ethiopian Government. This intensive engagement of government in the development and execution of activities, unexpected delays in recruitment and overambitious planning on our part have collectively led to delays in the execution of activities. The planning process for 2014 is now almost complete and will cover activities for this year, the core of the team is in place with recruitment ongoing for remaining posts and planning is more realistic based on initial experiences. The work plans will be used to monitor the budget during 2014 and spending is expected to increase accordingly.

4. **Deloitte Findings:** (ETH) Budget Management: (i) no written budget management policies and procedures to govern the budget management practices, no budgetary control framework; (ii) Budget lines in the grant agreement do not have breakdowns to components and/or specific areas of activities in the grant agreement. Budget breakdowns for travel, subsistence and accommodation, office, vehicles, printing and other were developed by GGGI Ethiopia. However, these breakdowns were not reviewed and approved by a budget governing body within GGGI or the donor; (iii) the budget management system is not integrated with the financial accounting system; and (iv) Management account reports are not produced to enable senior managers to monitor the financial position.
GGGI Response: (i) There appears to be a discrepancy on budget management between the assessors in Ethiopia and Indonesia. To clarify, the budget

management section in the GGGI Finance Policy (see Section 3) was already developed and waiting to be noted by the GGGI Council at the time of the assessment; this comprehensive GGGI finance policy was subsequently presented and noted at the 4th GGGI Council meeting and thereafter approved by the GGGI Director-General on December 27, 2013. All GGGI program staff were trained on the new policy and new implementation requirements on December 20, 2013. (ii) Budgets were successfully tracked by the Ethiopia Project team and at the Seoul Headquarters (HQ) according to expense categories. This was done manually by both Seoul HQ and the project offices with the information obtained from the old accounting system until the new system was introduced. (iii) As noted before, the previous accounting software inherited from K-GGGI did not have the ability to upload budgets, hence the shift to the new EMAX accounting system, which enables us to upload the budgets in the accounting system and produce actual versus budget on a monthly basis. (iv) Actual vs. budget therefore meets this reporting requirement now.

5. **Deloitte Findings:** (ETH) Procurement: (i) requirements stipulated in the grant agreement are not being fully adhered to; and (ii) no contract management process.

GGGI Response: The centralization of procurement, and the updating of the various templates – Tender invitations (RFP) and GGGI General Conditions of Contracts – do fulfil the donors' requirements, by reference to the UN Global Compact, including the ILO core conventions. The invitations and contracts also include requirements regarding Conflict of Interest and evidence of no conviction, and the personal situation of the Tenderer. GGGI Procurement is therefore now in compliance with international best practice, including the EU Directives, and verify that the requirements put forward in the Audit Report are considered by Procurement at Seoul HQ. Contract management is now performed by the project manager/operations leader. Following the centralization of procurement, this will be managed by Procurement at Seoul HQ in close cooperation with the project manager/operations leader, and with quarterly monitoring performed by the Organization and Delivery Unit.

6. **Deloitte Findings:** (ETH) Cash Management: no written cash management policies and procedures to govern the cash management practices during the period covered by the review / (INO) (i) GGGI Indonesia currently does not perform petty cash reconciliation to validate that the total cash on hand matches the expected cash on hand as per the disbursements recorded in IS and balance in Kashflow. This observation and recommendation is consistent with GGGI Indonesia's plans to perform regular petty cash reconciliations in accordance with the draft GGGI Finance Policy (ii) GGGI Indonesia has relied on cash (brought into the country from GGGI HQ), corporate credit cards from GGGI HQ and direct payments made by GGGI HQ for all expenditure related to the GGGI Indonesia program. It is now in the process of issuing a GGGI HQ corporate debit card to facilitate the drawing of cash in Indonesia.



GGGI Response: There was no centralized cash management system during the period of review. Country projects managed their cash through a decentralized system. However, a centralized cash management policy was being developed during the period of the assessment as part of the finance policy, the final version of which was circulated to all offices on December 27, 2013. The Finance Policy now requires petty cash reconciliation on a monthly basis for all locations (*see section 8.3 of the GGGI Finance Policy*). As part of the follow-up, the Finance Department has requested field offices to submit petty cash reconciliations for the 2013 year-end and thereafter on a monthly basis in 2014. GGGI now maintains a centralized structure of oversight of a decentralized cash management system which we believe will be more robust and in line with international best practice. This will be further improved with the implementation of the ERP system.

B. Adequacy of accounting function and internal control systems

1. **Deloitte Findings:** (ETH) In relation to bank transfers, the CFO alone can authorize bank transfers. Not provided with a definitive response to confirm this / (INO) There is in fact segregation of duties within the accounting/finance function in GGGI Indonesia.

GGGI Response: We have shared with the Deloitte assessors the Delegation of Authority (DOA) approved by the Council (see section 5.3 of the DOA), which clearly explains the authorization for payment as a condition for payment release in the Finance Department and in programs. In the Finance Department, the rules stipulate two-person approvals based on the transaction value. These arrangements had been shared with both the Deloitte Indonesia and Ethiopia teams to confirm the segregation of work and duties.

2. **Deloitte Findings:** (ETH) There is a good mix of qualification and experience among the staff within the finance function, however there are weaknesses in applying the most basic accounting concepts. Despite their capability, the team may not be getting the support of a robust accounting system / (INO) All team members have met the minimum educational background required by GGGI Indonesia.

GGGI Response: Current accounting weaknesses observed by the Deloitte assessors are due to the constraints of the IFLOW accounting software, which cannot record non-Korean Won transactions and also cannot capture transactions on an accrual basis automatically and human intervention was required. Staff in our Ethiopia team has strong management background and experience, including in managing development assistance funds. We welcome the recommendation and we will further strengthen the training of our Ethiopia-based staff in accounting practice.

3. **Deloitte Findings:** (ETH) GGGI has changed its accounting system from I-Flow to E-Max and has transferred all accounting information from the old to the new system. However, there are issues that need to be resolved before placing full

reliance on the system. The issues that resulted from the transition include transactions amounting to USD 78,856 not yet captured by the system (in-transit), foreign currency gain/loss resulting from rate variations not shown in the accounts, differences in prepaid income account and bank ledger. Also, the system is not designed to process project/country office related reports like trial balance, balance sheet, and in some cases sub.

GGGI Response: At the time of the assessment, the USD 78,856 was going through the process of reconciliation between IFLOW and EMAX which is the new accounting software, as explained in Section A (2) above. This process is now being completed as part of the year-end financial closing. It is important to note that this amount was identified by our finance team together with the Ethiopian project team. The foreign currency gain/loss has been addressed in EMAX, the new accounting software. The Deloitte team was briefed on these matters during their review.

4. **Deloitte Findings:** (ETH) Trial Balance and Balance Sheet for GGGI Ethiopia are not provided / (INO) GGGI HQ only records its revenue and expenses. Also, there are no main sub ledgers. GGGI Indonesia does not record any balance sheet accounts in their financial statements.

GGGI Response: The present accounting system is not capable of producing specific balance sheet for Ethiopia. However, all accounting transactions, including those of balance sheet nature effective 2014, are tracked via project codes, including those of balance sheet nature. We welcome the recommendation and will ensure that the capability to produce project-specific balance sheets is developed and implemented as part of our ERP system in 2014.

5. **Deloitte Findings:** (ETH) The trial balance and balance sheet for GGGI Ethiopia are not provided. There is a lack of internal consistency in the accounting system, with differences in a number of areas.

GGGI Response: (ETH) The present accounting system is not capable of producing a specific balance sheet for Ethiopia. As explained in # 1 (A), all transactions related to individual projects have been tracked and accounted via a project code, including those related to Ethiopia. As mentioned above, we welcome the recommendation and will ensure that the capability to produce project-specific balance sheets is developed and implemented as part of our ERP system in 2014.

C. Overview of income received

1. **Deloitte Findings:** (ETH) GGGI has its own separate bank account, but in the general ledger of GGGI the amount of funding from Norwegian MFA is pooled together with other donor funds in the general ledger and a subsidiary ledger records bank-related transactions of the MFA – this does not facilitate direct reconciliation / (INO) the project funded by the MFA has its own separate program bank account.



GGGI Response: We maintain a separate bank account for each contribution. A separate bank ledger is also maintained for the purpose.

2. **Deloitte Findings:** (ETH) (i) Prepaid income account shows difference of USD 37,997 (ii) Acknowledgment of receipt was not issued to Norwegian MFA in the form of receipt or other appropriate document.

GGGI Response: (i) The prepaid income is recognized as revenue as spent. The differences are due to the translation of Korean Won to USD during the transition of IFLOW to EMAX. This discrepancy is now resolved as the prepaid income at the year-end reflects the balance after recognizing the revenue. (ii) There has been no policy in the past to acknowledge receipts from donors. Going forward, GGGI will send receipt of acknowledgement to donors on their contribution.

D. Review of expenses and balance sheet accounts

1. **Deloitte Findings:** (ETH) Salary and wages: (i) the staff regulation stipulates that tax reimbursements to staff should be made on the basis of tax certificates presented by staff members. However, tax reimbursements are being made without obtaining a tax certificate; (ii) The Relocation Allowance to staff members is made on a lump sum payment to spend at their own discretion rather than being based on actual cost incurred. This procedure seemingly lacks objectivity and is not in line with financial management best practice;

Outsourcing (Consultancy) costs: (i) salary of consultants for the month of September 2013 amounting to about USD 17,671 is not included in the statement of income and expenditure; (ii) amount paid to the program administrator and office administrator is charged as consultancy cost; and (iii) work permit for foreign staff and consultants working in Ethiopia was not provided

Rental (vehicle): ETB 5,000 paid as advance in relation to car rental is not included in the financial records of GGGI Ethiopia office.

GGGI Response

Salary and Wages: (i) For the year ending 2013, GGGI used professional firms to calculate the monthly grossing up of tax, withholding tax for employees, submitting to the government and supporting employees in the year-end tax settlement. Hence we do have a copy of the year-end tax settlement for employees. For the financial year starting 2014, GGGI will have a single uniform year-end tax reimbursement scheme for staff members in the Executive and Professional categories who pay taxes on their GGGI salaries and emoluments. Employees are responsible for filing their own taxes and claim the tax reimbursement based on actual tax paid with receipts. GGGI will ensure that all payments are made with original receipts. (ii) The amount of relocation allowance and the administration of the allowance was established after exhaustive benchmarking with comparable organizations such as the UN, World Bank, and the Asian Development Bank, all of whose staff regulations do not require receipts (relocation allowance is a lump sum payment). It is also international best practice to provide an amount to staff who come from diverse backgrounds and



with specific needs to enable them to match their circumstances. Administrative costs are also kept to a minimum.

Outsourcing (Consultancy) costs: (i) From our understanding of this finding, the issue raised may have occurred due to the limitations of the IFLOW software used at that time in accruing for expenses. The disbursement request was raised on 17 September and the booking of expense was made only on 15 October which is when the payment was executed, which is after the period of assessment. The system introduced through EMAX has now resolved issues of this nature. (ii) The program and office administrators in the Ethiopia team are currently employed on consultancy contracts—this is why the amounts paid have been recorded as consultancy costs. (iii) Following the ratification of the GGGI establishment treaty by the Ethiopian Government, GGGI applied for and was granted work permits for all non-Ethiopian team members. We do not recall being asked for copies of these by the assessors.

Rental (vehicle): the advance paid by a staff member was not timely claimed from GGGI. This was subsequently claimed in November and it is now reflected as a deposit paid in the GGGI Balance Sheet.

2. **Deloitte Findings:** (ETH) (i) Bank reconciliations to reconcile the bank statement balance with the general ledger balance were not performed. That this is important is confirmed by high level analysis that indicated differences; (ii) Cash on hand, advance made to [REDACTED]'s bank account, deposits made for car rental in Addis Ababa, are not included in the financial system.

GGGI Response: (i) Bank reconciliations were performed on a monthly basis. A source of confusion in this finding may relate to the currency discrepancy between the source bank account, which is in Norwegian Kroner (NOK), and the old accounting system, which could only produce a bank general ledger in Korean Won. This may have led to a misunderstanding as to whether such reconciliations were performed. Although this was not in a traditional reconciliation format, it was in fact done. Since the introduction of the new software system, this potential source of confusion has been resolved. (ii) The staff member mentioned in the report was not timely in claiming the small deposit (about \$250) from GGGI. He did subsequently and it is now reflected as a deposit paid in the GGGI Balance Sheet (see also D 1)

E. Other Findings

1. **Deloitte Findings:** (ETH) Regulatory requirements like tax on staff payroll, consultants earnings from working in Ethiopia, and payments made to suppliers are not being complied. The main reason for this is that the GGGI office is not officially registered in Ethiopia / (INO). There are multiple currencies in use (USD, IDR, NOK, KRW and GBP), the exchange rate difference (gain or loss) that arises during conversion of these currencies (for reporting purposes) to the other is not reflected in the accounting system.

GGGI Response: (ETH) The Secretariat is studying the requirements of registering as an intergovernmental organization (IGO) in Ethiopia. While in theory there is no official registration requirement for IGO in the country, IGOs are often required to register with the tax authorities for various tax purposes. GGGI will comply with such requirements in Ethiopia following our study of the above tax related matters. (INO) The loss or gain in foreign exchange and bank charges deriving from transactions have been booked directly to the budget code related to Norway-funded project in Indonesia. This information, which was managed by the project team, was not verified or validated with the Finance Department in Seoul HQ prior to including it in the assessment report. We welcome the recommendation and, going forward, foreign currency loss or gain and bank charges will be verified with GGGI Headquarters.

F. Conclusion

1. **Deloitte:** (ETH) “Based on our assessment, we observed that efforts are made to improve the overall accounting system, and related internal controls. However, there are matters such as the Ethiopia office registration, setting up of an accounting system with complete functionality, internal controls and overall donor monitoring requires improvement.”

GGGI Response: The process for GGGI office registration involves the signing of a Host Country Agreement (HCA) with the Ethiopian Government. The negotiations for this have been lengthy, are ongoing, and entering their final phase - such processes invariably take time, especially since GGGI is a new global organization and not for example, a UN agency that most countries are used to registering. In parallel to these HCA negotiations, GGGI Ethiopia has commissioned a professional firm to provide an assessment of our tax obligations under Ethiopian law. The issues related to the development of a functional accounting system, internal controls, and donor monitoring have all been addressed in the specific responses above.

2. **Deloitte:** (INC) “Based on our assessment of risks and effectiveness of internal controls in GGGI Indonesia, we consider that, in general, the system of internal controls is designed to meet the organization’s objectives; however, some improvements were identified to enhance the controls design, improve consistency and implementation of business controls to achieve particular business objectives and manage business risks.”

GGGI Response: As indicated above, most improvements identified have already been addressed by the new software and accounting systems introduced in the third quarter of 2013, and the remaining ones will be taken onboard after this assessment. We believe that this will adequately address the issues related to consistency and management of business risks.

2. Issues for clarification

As part of our effort to fully understand the results of the assessments, actively develop our action plan for improvement, and ensure continuity with international practice, GGGI seeks your indulgence in respect of

- A. With regards to the assessment report of Seoul Headquarters, we would like to exclude the names of Staff members mentioned in the report.
- B. There seems to be some misunderstanding on what accounting software is used at GGGI. The only accounting system used by GGGI is EMAX and it has been used effective October 2013. GGGI used IFLOW prior to October 2013.
- C. There seem to be also a discrepancy between the assessment reports for Ethiopia and Indonesia regarding the understanding of the use of the sub-ledger. We would like to clarify that GGGI maintains main ledgers by currency for all bank accounts and subsidiary ledgers by bank account to record transactions related to specific bank accounts.
- D. It has been mentioned in recommendation A(4) that the GGGI finance policy was approved on December 8, 2013. We wish to clarify that it was not approved but presented and noted on that date, at the 4th GGGI Council Meeting, and subsequently approved by Director General on December 27, 2013.