

Law in the Service of Man (Al-Haq)

Assessment of Organizational Capacity

July 2005

_____, 2005

Mr. Frans Potuyt
Representative of the Kingdom of the Netherlands
Netherlands Representative Office
Al Bireh - Palestine

Dear Mr. Potuyt,

We have completed the agreed-upon procedures comprising of completing the questionnaire included in the terms of reference section (Appendix A) of the attached report as presented by the Netherlands Representative Office (NRO). The objective of these procedures is solely to assist the NRO in evaluating the organization capacity of the Law in the Service of Man (Al-Haq). The sufficiency of these procedures is solely the responsibility of NRO. Consequently, we make no representation regarding the sufficiency of the procedures mentioned in the terms of reference either for the purpose for which this report has been requested or for any other purpose.

Our procedures were performed during the period from July 5, 2005 to July 12, 2005 at Al-Haq office location. The findings were discussed with Al-Haq management.

The results of the agreed-upon procedures and our recommendations are detailed in the accompanying report. However, following is the issue that is not in compliance with the minimum requirements listed in the NRO terms of reference as presented in Section 18 of the accompanying report:

- **No budget vs. actual analysis is performed:** As further explained in section 16 of the accompanying report, Al-Haq does not perform variance analysis between budgeted and actual performance with explanations of significant variances.

Nevertheless, following are the major issues that need to be addressed by Al-Haq management, and do not affect the aforementioned minimum requirements. Such issues have been ranked based on our assessment of their importance to Al-Haq. The rating used is explained in the table below:

Rating	Explanation
A	Issues which need to be addressed on an urgent basis.
B	Issues which need to be addressed at the first available opportunity.
C	Issues considered best practices if implemented.

- **Documentation (Rating B):** As further explained in sections 3 and 5 of the accompanying report, Al-Haq shall formally recognize and document all success factors, external factors, inputs and resources, stakeholders, and performance indicators.

- **Risk management (Rating B):** As further explained in section 8 of the accompanying report, Al-Haq shall develop a formal risk management process to identify and manage all types of risks affecting Al-Haq operations proactively.
- **Internal audit function (Rating C):** As further explained in section 12 of in the accompanying report, Al-Haq shall consider implementing an internal audit function to provide control and help in risk management.
- **Lack of continuity reserves (Rating B):** As further explained in section 16 of the accompanying report, Al-Haq does not maintain any reserves to guarantee continuity of the organization.
- **Enhancing policies and procedures (Rating B):** As further explained in section 13 of the accompanying report, Al-Haq shall enhance its financial and internal controls policies and procedures manual to include aspects that are missing. In addition, Al-Haq shall develop a grants management procedures manual that addresses all issues related to grant management.
- **Enhancing personnel manual (Rating A):** As further explained in section 15.5 of the accompanying report, Al-Haq does not have a documented personnel manual relating to recruitment, orientation, training, evaluation, promotions, and compensation of employees. Currently, Al-Haq has a manual relating to employees vacations and salary scale.
- **Overhead allocation system (Rating A):** As further explained in section 17 of the accompanying report, Al-Haq shall allocate actual overheads to units based on a predetermined overhead allocation base. This allocation base shall be reasonable and approved by top management.
- **Quotation policies and procedures (Rating A):** As further explained in section 15.3 of the accompanying report, Al-Haq shall formally document the policy regarding the number of quotations that need to be obtained for each purchase and the method of obtaining such quotations.
- **Non-use of pre-numbered purchase requests and purchase orders (Rating A):** As further explained in section 15.3 of the accompanying report, Al-Haq uses standard forms of purchase requests and purchase orders but these forms are not pre-numbered to enable easy tracking of such forms.
- **Fixed assets register (Rating B):** As further explained in section 15.4 of the accompanying report, although Al-Haq maintains a fixed assets register, this register needs to be enhanced to include other information that need to be included in a fixed assets register.

Based on the results of the agreed-upon procedures we believe that, except for not performing variance analysis between budgeted and actual performance with explanations on significant variances, Al-Haq has met the minimum requirements listed in the NRO terms of reference as presented in Section 18 of the accompanying report.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on Al-Haq's organization capacity. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of NRO and Al-Haq, and shall not be used for any other purpose.

Sincerely yours,
Ernst & Young

Hazem Sababa

**Law in the Service of Man (Al-Haq)
Report on Assessment of Organizational Capacity**

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July 2005**

1. LAW IN THE SERVICE OF MAN (AI-HAQ)

1.1. Background

Law in the Service of Man (Al-Haq) was established in 1979 as a nongovernmental not-for-profit organization based in Ramallah. Al-Haq is the West Bank affiliate of the International Commission of Jurists – Geneva. Al-Haq conducts and disseminates legal and human rights research based on international humanitarian law, as well as on human rights principles and standards.

Al-Haq is managed by a Board of Directors of nine members. Currently, Al-Haq has 23 staff member plus two other volunteers.

1.2. Legal framework

Al-Haq was registered in Palestine on June 29, 2003 as a Palestinian non-governmental organization at the Ministry of Interior under registration number RA-2283/LS in accordance with the Nongovernmental Organizations Law # 1 for year 2000.

2. MISSION, OBJECTIVES, AND STRATEGIES

2.1. Mission

Al-Haq mission is to protect and promote human rights and respect for the rule of law in Palestine with a commitment to the uniform application of international humanitarian and human rights law regardless of the identity of the perpetrator or victim of abuse.

Furthermore, Al-Haq aims at carrying out activities which aim at upholding the rule of law and respect for human rights in Palestinian areas.

2.2. Objectives

To meet its mission, Al-Haq developed institutional objectives among which are the following:

- To become a reference point in international human rights and humanitarian law in Palestine for concerned organizations and individuals at the local and international levels.
- To influence policy and legislation regarding the human rights situation in Palestine at the national and international levels.

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- To provide legal services to the Palestinian community in the West Bank.
- To develop the knowledge, understanding and technical capacity of individuals in the field of human rights and humanitarian law at the national and international levels.
- To develop the institutional capacity of the organization

2.3. Strategies

To achieve its objectives, Al-Haq has developed many operational strategies among which are the following:

- Drawing the international community attention to the Israeli violations through campaigns and speaking tours.
- Organizing an expert seminar that will promote an innovative and critical debate on the application of the international humanitarian law in the occupied Palestinian territories.
- Carrying out training and awareness raising activities for Palestinian civil society organizations in the field of international humanitarian law.
- Strengthening the monitoring of human rights violations by the Palestinian Authority to ensure the promotion of the rule of law and protection of human rights.
- Continuous development of staff and focusing on teamwork.

2.4. Comments

Al-Haq has documented its mission, objectives, and strategies. Al-Haq has a linked relationship among its mission, objectives, and strategies. Each objective is formally linked to one or more strategies.

2.5. Recommendations

Al-Haq shall develop a formal process to periodically review its strategies to ensure that such strategies will continue to lead to the accomplishment of its objectives and mission.

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3. SUCCESS FACTORS

3.1. List of success factors:

Based on our inquiries of Al-Haq's management and understanding of Al-Haq operations, the following factors are vital for successful achievement of Al-Haq objectives:

- Existence of sustainable funding.
- Employing well-experienced and dedicated staff.
- Accessing all Palestinian territories.
- Independence from all governmental institutions.
- Having good relationships with local and international human rights organizations.

3.2. Comments

Although many of the above success factors are recognized by management, Al-Haq needs to identify all its success factors. In addition, all success factors need to be documented and formally recognized.

3.3. Recommendations

Al-Haq shall enhance its recognition of the success factors through considering all such factors and linking each strategy to one or more success factors. The aim of this linking is the identification of success factors that have a direct effect on the achievement of Al-Haq strategies and consequently, on the achievement of its objectives and mission.

In addition, Al-Haq shall develop a periodic formal process to ensure that success factors identified continue to be as such in relation to their corresponding strategies. This process shall also measure the degree of success Al-Haq achieved in securing and maintaining its success factors.

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4. SWOT ANALYSIS

Al-Haq's management identified the following Strengths, Weaknesses, Opportunities, and Threats:

4.1. Strengths

- Creditability of Al-Haq's reports and publications.
- Employment of staff that has experience in the international humanitarian law.
- Al-Haq employs a dedicated, well-experienced, and self-motivated team that has a teamwork spirit.
- Al-Haq has a good reputation among the local and international communities as it is an active member in many local and international human rights associations.
- Al-Haq is unique in Palestine in that it systematically documents violations using standardized affidavit and questionnaire forms, and then stores the gathered information in a database open to the public and to researchers.

4.2. Weaknesses

- No sustainable funding exists to enable Al-Haq to plan its operations.
- Al-Haq's inability to gather first hand information in Gaza is a weakness. Al-Haq has no staff working in Gaza, which makes it necessary to coordinate all information gathered in Gaza with organizations working there.

4.3. Opportunities

- The increasing international interest in human rights violations in Palestine and credibility of Al-Haq reports and documentation give Al-Haq the opportunity to become the leader of its field of expertise.
- The well-reputation of Al-Haq in its field of expertise gives Al-Haq the opportunity to become a participant in the Palestinian legislative process.
- Al-Haq has the opportunity to be the human rights training leader due to its expertise in this field.

4.4. Threats

- No sustainable funding may adversely affect Al-Haq ability to accomplish its objectives.
- The intervention of donors and attempts to tie funding to particular donor agendas remain a threat to Al-Haq's work.

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- The Israeli restrictions may disable Al-Haq staff from accessing all desired locations.
- Possible interference or attempts by the Palestinian Authority to control or silence civil society organizations poses a potential threat to Al-Haq's ability to function efficiently and effectively.

4.5. Comments

The above SWOT analysis is recognized by Al-Haq management. Documentation of such SWOT analysis is maintained by Al-Haq.

4.6. Recommendations

Al-Haq shall enhance its SWOT analysis through formally developing a plan to show how strength and opportunities will be enhanced and how weaknesses and threats will be mitigated. The plan shall be part and in-line with Al-Haq overall planning.

5. EXTERNAL FACTORS

5.1. List of external factors

Based on our understanding of Al-Haq operations and inquiries from management, Al-Haq operations are positively and / or negatively influenced by the following external factors:

- Market factors: As a not-for-profit organization, Al-Haq is competing with other non-governmental organizations in the market to obtain funding from donors. However, as the relationship of Al-Haq with its donors is distinguished and it has a good reputation in the local and international communities, Al-Haq has an advantage over other NGOs in obtaining funding from donors who are interested in supporting human rights.
- Political situation: The current political and economic destabilization in the area might limit the achievement of Al-Haq strategic objectives.

5.2. Comments

Al-Haq neither formally recognizes the external factors nor documents their effect. External factors might have positive or negative effect on Al-Haq operations, and recognizing such factors is vital in benefiting from opportunities or managing risks resulting from them.

5.3. Recommendations

Al-Haq shall formally recognize and document all external factors affecting its operations and develop a plan to benefit from such factors or to mitigate the risks resulting from them.

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6. INPUTS AND RESOURCES

6.1. Inputs and resources available

Al-Haq has the following main inputs that are utilized in its operations:

- **Human Resources:** Al-Haq employs 23 employees including one General Director, and one Administrative Officer.
- **Financial Resources:** Al-Haq receives contributions from more than seven donors. Al-Haq has distinct relations with its donors. In addition, Al-Haq continues its efforts to attract new donors and maintaining excellent relations with existing donors.
- **Operational Resources:** Al-Haq has three main units: the Research and Advocacy Unit, the Monitoring and Documentation Unit, and the Legal Unit. In addition, Al-Haq has two supporting units: the Library Unit, and the Administration Unit.

6.2. Comments

- Management of Al-Haq believes staff is of very good quality. Employees have sufficient qualifications to perform their assigned responsibilities. However, the management believes that Al-Haq needs to employ a Public Relations and Fundraising personnel as this responsibility is currently assigned to a legal researcher under the General Director supervision. Nevertheless, management believes other positions are occupied by staff capable of carrying out Al-Haq current activities.
- Based on discussion with Al-Haq management and selected staff, Al-Haq needs more office space as the current one is not sufficient for Al-Haq to perform its activities.

6.3. Recommendations

Al-Haq shall implement a strategy to retain and continue the development of its inputs especially human resources, which represents a vital input in its operations.

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7. EXTERNAL RELATIONS

7.1. Stakeholders' influences

- Donors - As a not-for-profit organization depending on donors' contributions, Al-Haq operations are influenced by donors' actions. Following are major effects of donors on Al-Haq:
 - Donor funding is vital to keep Al-Haq in business. The sustainability of Al-Haq is questionable without donor funding.
 - As every donor has his own priorities and agenda, donors might cease funding of Al-Haq activities if such activities differ from their priorities and agendas. Accordingly, Al-Haq might be required to change its plan to accommodate donors' agenda. Therefore, Al-Haq might not be able to achieve its objectives as planned. However, Al-Haq believes that it will keep executing its own plans and activities.
 - Al-Haq has to adhere to donors' requirements agreed upon with the donors, which might necessitate changes in current procedures implemented by Al-Haq.
- Top management (including the Board of Directors) – The Board of Directors has an active role in the decision-making process of Al-Haq and in monitoring its operations.
- Employees of Al-Haq – As employees are vital input to Al-Haq operations, recruiting and maintaining experienced professional staff greatly enhances the quality of Al-Haq activities.
- Regulatory authorities – Al-Haq operations are affected by laws, regulations and restrictions imposed by regulatory authorities in the Palestinian National Authority or the Israeli government. Al-Haq has to adhere to those requirements which might influence its ability to perform its activities as planned.
- Beneficiaries – As Al-Haq activities aim at supporting and defending the Palestinian human rights, the reputation of Al-Haq among the general public and the cooperation of the community greatly enhance the expected outcomes of Al-Haq activities.

7.2. Comments

Although Al-Haq management is aware of its stakeholders' influences, unofficial recognition and documentation of the risks resulting from stakeholders' actions / inaction will affect Al-Haq ability to manage risks proactively.

7.3. Recommendations

We recommend that Al-Haq formally documents its stakeholders, the risks resulting from their actions / inactions and develops a plan to address such risks.

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8. RISK ASSESSMENT

8.1. Types of risks Al-Haq is exposed to

Based on our understanding of Al-Haq operations and discussion with management, Al-Haq is exposed to the following major risks:

- Political risk: the instability of the current political situation, continued incursions, closures, and curfews make it difficult to function efficiently and effectively.
- Operational risk: Al-Haq is exposed to the risk that its activities might not achieve its objectives due to internal and external factors.
- Financial risk: Al-Haq is exposed to the risk resulting from its inability to secure the funds necessary to perform its activities.
- Compliance risk: Al-Haq is exposed to the risks resulting from noncompliance with donors as well as other regulatory agencies requirements.
- Internal control risk: Al-Haq is exposed to the risk resulting from internal control systems failure to prevent, detect and correct errors on a timely basis.

8.2. Comments

No formal risk assessment process is in place to identify, evaluate, manage, monitor, and mitigate such risks.

However, currently Al-Haq has a contingency plan regarding loss of data. Al-Haq perform daily back up of all documents in the data bank.

8.3. Recommendations

Al-Haq shall develop a formal risk management process to clearly identify all types of risks affecting Al-Haq operations. This process shall identify risks, assess their effect on Al-Haq operations, consider the different alternative to mitigate the risk, select the best alternative and finally establish a monitoring mechanism to ensure that a proper plan is in place to manage the risks proactively.

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9. PERFORMANCE MEASURES

9.1. List of performance measures

Al-Haq's management uses the following performance indicators:

- Monthly reports summarizing progress in the annual action plan.
- Quality of Al-Haq publications and other publicities and extent of public use of such publicities.
- Extent of Al-Haq participation in the legislative process.
- Number of Al-Haq interventions presented to the Palestinian and Israeli governments.
- Number of hits to Al-Haq website.
- Number of requests to use Al-Haq databank in the Monitoring and Documentation Unit.

9.2. Comments

We noticed that Al-Haq management uses the aforementioned performance measures without formal recognition of such measures.

9.3. Recommendations

Al-Haq shall develop, document and communicate targeted performance indicators for each of its activities, organizational units, and staff members. In addition, Al-Haq shall implement a process to periodically review the achievement of the targeted performance indicators and identify variances between the actual results and the targeted ones and take corrective actions accordingly.

10. IMPACT OF SERVICES

Al-Haq management measures the impact of its services through recognizing the degree of achievement of many of the aforementioned performance measures, such as:

- Extent of Al-Haq participation in the legislative process.
- Number of Al-Haq interventions presented to the Palestinian and Israeli governments.

However, no independent assessments were conducted to measure the impact of Al-Haq services.

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11. MANAGEMENT OVERALL CONTROL STRUCTURE

11.1. Management Style and Culture

Based on discussion with Al-Haq management, Al-Haq is considered a progressive organization with a non-competitive nature of operations. Al-Haq management is considered open, cooperative, and decentralized.

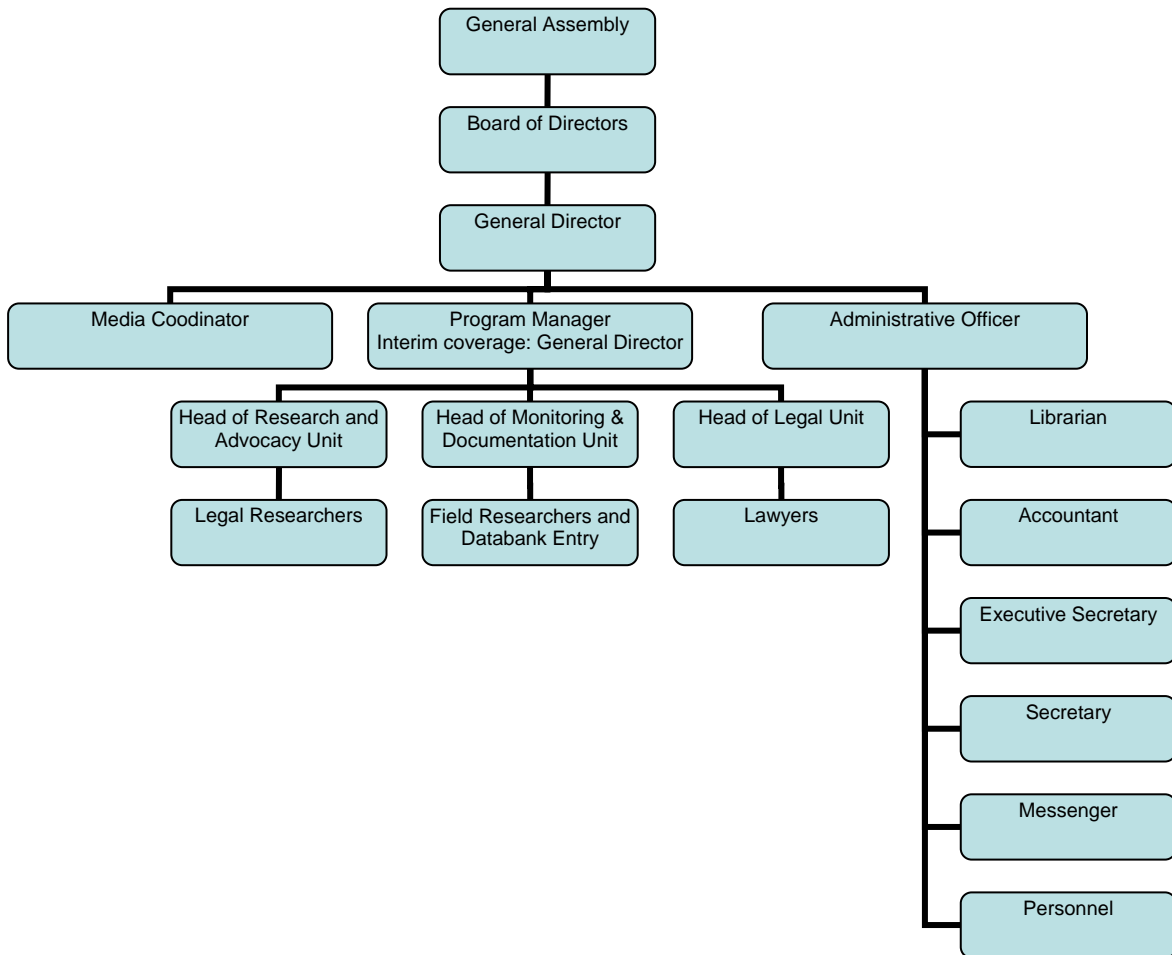
Decentralization of decisions and assignment of responsibilities allow Al-Haq units to share in decision-making function including assisting in preparing Al-Haq strategic plan and annual budgets.

11.2. Al-Haq Bylaws

Al-Haq’s Articles of Incorporation (the Bylaws) define Al-Haq mission, objectives, and the responsibilities of the General Assembly.

11.3. Organizational Structure:

The current organizational structure is displayed in the next page:



Description of the responsibilities of the key positions in Al-Haq’s is presented below.

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11.4. The General Assembly

Al-Haq General Assembly consists of 28 members to undertake the following responsibilities:

- Discusses the Board of Directors report on the activities of the organization for the previous year.
- Elects members of the Board of Directors in a secret ballot every three years.
- Holds a General Assembly meeting every year.
- Elects Al-Haq independent auditors.
- Approves Al-Haq financial statements.
- Discusses and resolves grievance and appeals submitted to the assembly by members of the organization.

11.5. Board of Directors

Al-Haq Board of Directors consists of nine members. According to Al-Haq bylaws, the Board of Directors has many responsibilities among which are the following:

- Calling for and organizing the meetings of the General Assembly.
- Approving Al-Haq annual activities report and future plans.
- Following up on proper management of the organization.
- Representing Al-Haq and concluding agreements on behalf of it.

The following are the members of Al-Haq Board of Directors:

- 1- Mr. Nidal Taha, President
- 2- Dr. Lily Feidy, Member, Deputy President
- 3- Mr. Izzat Abdul Hadi, Treasurer
- 4- Ms. Khadeja Abu Ali, Secretary of the Board of Directors
- 5- Dr. Amin Al-Thalj, Member
- 6- Dr. Camille Mansour, Member
- 7- Dr. Dalal Salameh, Member
- 8- Ms. Lisa Taraki, Member
- 9- Ms. Dina Nasser, Member

During year 2004, the above members were elected by the General Assembly.

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11.6. General Director

Based on the General Director's (Ms. Randa Siniora) job description, she has several responsibilities among which are the following:

- Directing and coordinating all Al-Haq activities in accordance with Al-Haq mission and strategic objectives.
- Setting short and long-term plans and strategies in cooperation with the units' directors.
- Providing the Board of Directors with a periodic report on Al-Haq activities.
- Representing Al-Haq in front of all external parties.
- Setting Al-Haq administrative policies, plans, and management approach.

Ms. Siniora has LLM degree in International Human Rights Law, a Master degree in Sociology-Anthropology, and has a 19-year experience in defending human rights.

11.7. Programs Manager

This position is currently vacant and is filled by the General Director. Currently, Al-Haq does not intend to employ a Programs Manager as it is sufficiently filled by the General Director. Among the responsibilities of this position are the following:

- Directing all Al-Haq operational units in the daily activities.
- Participating in developing Al-Haq annual report and other publicities.
- Assessing and evaluating units and units heads performance.

11.8. Administrative Officer

Based on the Administrative Officer's (Ms. Nouran Naseef) job description, she has several responsibilities among which are the following:

- Maintaining the responsibility for all administrative issues.
- Setting Al-Haq administrative policies and procedures to apply such policies.
- Supervising all cash disbursements and following up on purchases and biddings.

Ms. Naseef holds a Bachelor degree in Economics and has a 9-year experience in administration and human resource.

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11.9. Comments

- The current organizational structure shows a clear line of command. However, some of the positions are not filled, such as the Programs Manager.
- Based on discussion with the General Director, the Board of Directors held two meetings until June 2005 (six meetings in 2004). The Board of Directors is considered effective in monitoring Al-Haq operations.
- Al-Haq has job descriptions for its employees and these job descriptions are communicated to the staff. However, Al-Haq does not have a formal documentation of the roles and procedures to be followed by each unit.
- According to the Al-Haq bylaws, each member of the General Assembly has to pay an annual subscription fee of JD 30. However, based on discussion with the General Director, no subscriptions were collected during year 2004.

11.10. Recommendations

- Al-Haq shall update its organizational structure to reflect on-the-ground situation. Such update shall be made by top management and approved by Al-Haq Board of Directors.
- We recommend that each of Al-Haq's units shall have a documented role. This documentation shall be approved by Al-Haq Board of Directors. Such documentation shall include inputs of the unit, flows of information, processes performed at the unit, and reports produced.
- We recommend that Al-Haq collects from the members of the General Assembly the subscription fee stated in the bylaws. However, the General Assembly may decide to update Al-Haq bylaws and supersede the requirement to pay the annual subscription fee.

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12. INTERNAL AUDIT AND QUALITY ASSURANCE

12.1. Comments

We noted that Al-Haq does not have a separate internal audit function to aid management in controlling business and assist in identifying matters requiring management attention.

In addition, Al-Haq does not have internal quality assurance to ensure quality of Al-Haq activities.

Al-Haq is expected to be assessed by an independent assessor during August 2005. The assessment is expected to be funded by the Netherlands Representative Office and will cover Al-Haq operations, administrative, and financial aspects.

12.2. Recommendations

We recommend that management considers the requirements for implementing an internal audit function based on current and future expected activities of Al-Haq. The function would focus initially on areas that are of concern to management, (i.e. high risk); with a view to ensure that key management objectives and strategies are achieved. The function must be given adequate resources, both financial and operational, and a clear reporting structure shall be formalized and documented for reporting the findings to the Board of Directors on which they can base decisions.

13. FINANCIAL AND INTERNAL CONTROLS POLICIES AND PROCEDURES MANUAL

13.1. Comments

During 2005, Al-Haq has asked an independent consultant to develop a financial and internal controls policies and procedures manual. The independent consultant has submitted a draft manual that is not yet approved by Al-Haq. According to the copy of the draft manual we have been furnished with, the manual includes most aspects of financial and internal controls policies and procedures that need to be implemented by Al-Haq. However, some of the aspects are missing and others need further enhancements.

13.2. Recommendations

- Al-Haq shall adopt and formally recognize the newly developed financial and internal control policies and procedures manual. Periodic review and update of this manual shall be performed to reflect any changes and amendments.

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- Al-Haq shall develop a Grants Management procedures manual that include the following:
 - A clear description of procedures that has to be applied in processing accounting transactions related to grants.
 - Accounting policies to be applied.
 - Identification of persons engaged in performing each type of transactions related to grants.
 - Approvals and authorization limits required for processing transactions.
 - The integration of grants management policies and procedure with Al-Haq financial system.
 - Identification of reports that shall be prepared by Al-Haq to meet donors' reporting requirements.

14. EXTERNAL AUDIT

14.1. Comments

Al-Haq annual financial statements are audited by an international audit firm. Based on inquiries from the Accountant, during 2003 and 2004 no formal recommendations are delivered by the external auditors.

14.2. Recommendations

We recommend that Al-Haq requests the external auditors to provide comments on Al-Haq internal controls and recommendations for development based on the results of the audit tests. Such comments and recommendations shall be submitted to the Board of Directors to take corrective actions to resolve the weaknesses in the internal controls system.

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15. INTERNAL CONTROL SYSTEM

15.1. Cash Cycle

15.1.1. Overview of the cash cycle

Donations are received through bank transfers. Upon receiving a credit note from the bank, the Accountant records the receipt in the accounting records and the General Director informs the donor of the receipt of cash. The General Director reviews cash receipts transactions processed by the Accountant; however, not all cash receipt transactions evidence the General Director's review.

Authority to sign checks, in all amounts, is assigned to the General Director and one out of the following two authorized persons:

- Treasurer
- Board President

Based on discussion with the Accountant, the General Director and the other authorized person review corroborating evidence before signing checks.

Unused checks are maintained by the Accountant. However, unused checks are also accessible to the General Director and the Executive Secretary.

Cash on hand is maintained by the Executive Secretary with a ceiling of NIS 2,000. Cash payments are recorded in a cashbook. Cash replenishment is made using a formal request reviewed and approved by the Administrative Officer.

Recurring cash payments from petty cash up to NIS 200 are reviewed and approved by the Administrative Officer. However, non-recurring cash payments are made according to the purchasing procedures discussed below.

Al-Haq maintains bank accounts with a local bank. The accountant reconciles cash at banks per bank statement to Al-Haq records on monthly basis using Al-Haq standard form. Bank reconciliations are reviewed by the General Director.

15.1.2. Comments

- No evidence exists to show that all receipt vouchers are reviewed.
- No periodic or surprise cash count is performed. The latest cash count was in January 2005.

15.1.3. Recommendations

- All receipt vouchers shall be signed by their preparer and reviewed by an independent person and an evidence of such review shall exist.

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- The cash on hand shall be physically counted on surprise basis and reconciled with the petty cash balance recorded in the accounting system. The reconciliations shall be documented and approved by the Administrative Officer.

15.2. Revenue Cycle

15.2.1. Overview of Al-Haq revenue cycle

Al-Haq main sources of revenues are:

Grants and Donations -- Grants and donations are received from foreign donors. However, most grants represent core funding in addition to certain funds supporting certain activities and programs.

Other – Other revenues include revenues from training fees. Revenues from this source are minor and symbolic.

Upon receiving a bank credit note documenting the receipt of a donor contribution, the Accountant prepares and posts to the general ledger a receipt voucher that is reviewed by the General Director.

Upon receipt of cash from training fees and other revenues, a manual receipt voucher is prepared, recorded, and posted into the system by the Accountant. Not all receipt vouchers have an evidence of a review by another person.

15.2.2. Recommendations

- All contributions shall be reported in the accounting system in accordance with the International Financial Reporting Standards.
- Al-Haq shall develop control procedures over receiving and recording revenue. All revenue transactions shall be prepared by an individual other than the individual posts and reviews such transactions.

15.3. Procurement Procedures

15.3.1. Overview of Al-Haq procurement procedures

Purchasing Function

Currently, Al-Haq monthly purchases are relatively in small amounts. Recurring purchases are office supplies, publications design and printings.

Al-Haq uses a standard internal purchase request form that is used to document the need for procurements. Usually, needs are identified by units' heads. The internal purchase request is delivered to the Administrative Officer who reviews the request and delivers a copy of it to the Accountant who ensures the availability of budget for this procurement.

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Procurements of NIS 1,000 and above are made based on at least three price quotations from certain suppliers based on previous experience regarding the price and the quality of the needed goods. Al-Haq obtains price quotations for most purchases. However, procurements of U.S.\$ 5,000 and above are made based on formal tenders in the newspapers. Suppliers are selected by a procurement committee that is composed of three members including the Administrative Officer, the Accountant, and the Executive Secretary. The General Director approves all purchases above NIS 200. In most cases, suppliers are selected based on lowest price offered. Suppliers may also be selected based on the quality of services or products offered. Upon selecting a supplier, Al-Haq delivers to the selected supplier a purchase request to document the type, quantity and price of requested goods and the approval of such purchase.

Receiving Function

Purchases are received by the respective requesting unit. A standard form is used to document receipt of goods. A copy of the receipt of goods is kept by the recipient and another copy is delivered to the Administrative Officer who delivers a third copy to the Accountant.

Accounts Payable and Payments Functions

Upon receiving supplier invoice, the Accountant, using a journal voucher, records the purchase transaction in the accounting records. The supplier invoice and receipt of goods are attached to the journal voucher. The accountant then posts the journal voucher to the General Ledger. All relevant documents are then stamped "Paid".

15.3.2. Comments

- Al-Haq is still in the process of adopting the policies and procurement manual and applying it in its procurement activities.
- Although Al-Haq uses standard forms of purchase request and purchase order but these forms are not pre-numbered.
- Al-though Al-Haq has a policy regarding the nature and number of offers to be obtained for each purchase transaction but this policy is not formally documented and approved.

15.3.3. Recommendations

- Procurement policies and procedures shall be adopted and approved by the Board of Directors. Procurement procedures shall include all aspects of procurements.
- Al-Haq shall enhance the policy regarding the nature and number of offers to be obtained for each purchase transaction through formally recognizing the policy. The plan shall be approved by the Board of Directors.

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- All purchase requests related to a restricted grant shall be compared and agreed with the grant agreement terms and budget to ensure the allowability of the expense and to ensure that the expense is within the grant's budget and scope before preparing and approving the purchase order.
- Al-Haq shall use pre-numbered internal purchase requests and purchase orders to enable easy tracking of these documents.
- All purchase transactions shall be prepared by an individual other than the individual who posts and reviews such transactions.
- The Administrative Officer (or the General Director) shall review all accounting transactions made by the Accountant and document her review. In addition, the Administrative Officer shall ensure the existence of all the above supporting documents before recording purchase transactions in the accounting system. Further, the Administrative Officer shall ensure that all purchases control procedures are followed in conducting each purchasing transaction. Any exception noted shall be reported to the proper level of management.

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15.4. Fixed Assets Management System

15.4.1. Overview of Al-Haq fixed assets management system

Fixed assets purchase procedures are the same procedures that are described above under the procurement procedures section.

15.4.2. Comments

- Al-Haq maintains a fixed assets register. However, this register needs to be enhanced to include all aspects of a fixed assets register which are listed below under recommendations.
- An identification number is assigned to each item of fixed assets, and this number is attached to each fixed asset item.
- Al-Haq performs, on a periodic basis, a fixed-assets physical count. Results of the physical count are compared to the fixed assets register and differences are investigated.

15.4.3. Recommendations

- A fixed assets register shall be maintained to record all fixed assets that are owned by Al-Haq. This register shall include the details of each type of fixed asset and shall provide the following information.
 - Category
 - Identification number
 - Type
 - Model
 - Specifications
 - Item location
 - Condition
 - Date of purchase
 - Cost
 - Depreciation rate
 - Depreciation expense for the year
 - Accumulated depreciation
 - Net book value

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15.5. Human Resource Policies and Practices

15.5.1. Information on Al-Haq Human Resource Policies and Practices

Al-Haq does not have a documented personnel manual relating to recruitment, orientation, training, evaluation, promotion and compensation of employees, and other aspects of personnel. Currently, Al-Haq has a manual relating to employees vacations policies and procedures and documented salary scale.

On a semi-annual basis, Al-Haq conducts staff appraisal for all of its employees based on predetermined standards. The appraisal process is supervised by the Administrative Officer. All appraisals are then reviewed by the General Director.

15.5.2. Comments

Al-Haq does not have a comprehensive documented personnel manual.

15.5.3. Recommendations

Al-Haq shall develop and adopt a comprehensive personnel manual including recruitment, orientation, training, evaluation, promotion and compensation of employees, and all other aspects of personnel.

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16. FINANCIAL CAPACITY AND FEASIBILITY

16.1. Financial Statements

Based on Al-Haq audited financial statements made available for our review and our discussion with the General Director, the Administrative Officer, and the Accountant, the following notes could be highlighted:

- Al-Haq main source of income is grants received from various donors. Following is a breakdown of Al-Haq recognized grants revenues during 2004, 2003, and 2002:

	2004	2003	2002
Grants revenues	589,923	559,663	636,494
Other revenues	8,684	9,183	6,769
Total revenues	598,607	568,846	643,263

- Despite that the number of Al-Haq donors decreased during 2004 from 10 to 7, grants revenues increased by 5.4% due to increase in grant per donor.
- Al-Haq's major expense during the past three years is related to human resources, which represented 69%, 67%, and 67% of total expenses, for the years 2004, 2003, 2002, respectively.
- During 2004 and 2003, Al-Haq had a deficit of U.S. \$ 10,313 and 51,035, respectively.
- As of December 31, 2004, Al-Haq had total assets of U.S.\$ 373,556 of which 49.3% are cash on hand and at banks and the remaining represents pledges receivables (5.4%), which represent accounts receivable from donors, fixed assets (40.3%), and other current assets (5%). During 2004, total assets decreased by 13.1% mainly as a result of a significant decrease in cash on hand and at banks.
- As of December 31, 2004, Al-Haq's liabilities consisted of reserves for severance pay and provident fund (91.7%) and other payables and accruals (8.3%). No significant change occurred to liability items during year 2004.
- As of December 31, 2004, Al-Haq had net assets of U.S. \$ 227,538 which represents revenues in excess of expenditures over the period from Al-Haq inception to December 31, 2004.

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16.2. Annual Budgets

Following is a summary of the overall budget of Al-Haq for the year 2005.

	U.S. \$
Human resource	462,277
Staff development	16,750
Occupancy costs	59,610
Program related expenses	164,363
External evaluation	40,000
Other	84,750
	827,750

Based on discussion with the Accountant, the annual budget is prepared on the anticipated activity level. Budgets are prepared by Al-Haq key staff (such as: General Director and Units Heads).

16.3. Comments

- Al-Haq does not maintain any reserves to guarantee continuity of the organization. Continuity of Al-Haq depends primarily on future grants.
- Al-Haq budgets only expenditures expected to be disbursed during the coming year. Al-Haq does not budget revenues including Donors' contributions and other revenues.
- Al-Haq does not perform variance analysis with explanations of significant variances between budgeted and actual amounts.

16.4. Recommendations

- Al-Haq shall maintain adequate reserves to guarantee its continuity.
- In addition to budgeting expenditures, Al-Haq shall also budget for revenues, as revenues are the key estimate of expenditures. Proper assumptions shall be used in budgeting both revenues and expenditures.
- On a periodic basis, budget balances shall be compared to actual results, a practice referred to as variance analysis, where unreasonable variances shall be further investigated to pinpoint weaknesses and fund miss-allocation activities.

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17.1. Overview of the Accounting System and Financial Reporting

Financial year and reporting currency – Al-Haq’s fiscal year starts on January 1 and ends on December 31. The reporting currency of Al-Haq is the U.S. Dollar.

Accounting records – Al-Haq maintains accounting records and a set of accounting vouchers that are used in recording the accounting transactions and preparing the financial reports. The accounting records and vouchers are extracted from the accounting software used by Al-Haq.

Basis of accounting – Al-Haq follows the accrual basis of accounting under which, revenues are recognized when earned and expenses are recognized when incurred.

Accounting Software – Al-Haq uses “Bisan” as the accounting software to record its accounting transactions.

Accounting policies – Al-Haq has adopted the following main accounting policies:

- Fixed Assets – Fixed assets are stated at cost which comprise of purchase cost and all direct expenses incurred to prepare the asset for its intended use. Fixed assets are depreciated over their estimated useful lives using the straight-line method.
- Unrestricted net assets – Unrestricted net assets are those whose use is not subject to donor-imposed restrictions.
- Temporarily restricted net assets – Temporarily restricted net assets are those whose use is limited by donor-imposed stipulations and either expire by passage of time or can be fulfilled and released by actions of Al-Haq pursuant to those donor-imposed stipulations.
- Contributions – Contributions are recognized as unrestricted net assets increase unless their use is limited by donor-imposed stipulations.
- Salaries – Salaries and other disbursements are accounted for using the accrual basis of accounting under which salaries are expensed upon disbursement of cash.
- Reserve for severance pay – Reserve for severance pay is accounted for using the accrual basis of accounting and is calculated in accordance with the labor law prevailing in Palestine and based on one-month salary for each year of employment.
- Reserve for provident fund – Reserve for provident fund is accounted for using the accrual basis of accounting. Al-Haq employees are entitled to provident fund of 7.5% of employees’ basic salary of which 5% is contributed by Al-Haq and 2.5% is contributed by the employee.

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Financial reporting – Currently, the accountant prepares monthly and yearly financial reports required by donors and management. The reports are reviewed and discussed with the General Director.

Budgeting– Al-Haq has an overall budget identifying Al-Haq’s plans and estimated expenditures for the whole organization. In addition, Al-Haq prepares budgets for its projects. Technical as well as administrative staff participate in preparing the annual budget. The budget is approved by Al-Haq Board of Directors.

17.2. Comments

- The Accountant has the ability to post accounting transactions. This may weaken the internal controls as no review by another person is performed or documented.
- Al-Haq allocates actual overheads to individual units with no specific predetermined allocation base.
- Al-Haq does not document its budgeting procedures and assumptions used in preparing budgets.

17.3. Recommendations

- We recommend Al-Haq to adopt a policy concerning posting the accounting transactions to the accounting system to ensure that vouchers are reviewed by an independent person before being posted into their respective General Ledger accounts.
- Al-Haq shall use a predetermined overhead allocation base and allocation rate. This allocation base shall be approved by Al-Haq General Director.
- Al-Haq shall develop budgeting policies and procedures manual to document the annual budgeting process. This manual shall be reviewed and approved by the Board of Directors.

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18. OVERALL ASSESSMENT OF ORGANIZATIONAL CAPACITY

Following are the minimum requirements listed in NRO terms of reference:

- The organization must be a registered legal entity with clear articles of association and a transparent structure.
- The organization shall have a clear policy document concerning the relevant sector or program area. Its main and secondary goals shall be clearly linked to staff and financial inputs in a multiyear framework.
- The organization shall have a general description of the roles and responsibilities of its divisions and units and a clear internal accountability structure shall be in place. Key positions shall be occupied by individuals with sound references.
- The organization must have procedures guaranteeing an efficient and legitimate allocation of funds. General procedures concerning the procurement of goods and services and a system for monitoring implementation shall be in place.
- A fully substantiated and balanced budget for the organization (in addition to that for the activity) must be available and the counterpart shall be able to show that it has been able to meet its spending targets in previous years and to avoid significant over or under spending on its budget. The organization must be able to meet its short-term financial obligations.
- Financial and other reports must be timely and transparent. For NGOs: an independent audit (not necessarily by an international audit company) must be possible.

We believe that, except for not performing variance analysis between budgeted and actual performance with explanations on significant variances, Al-Haq has met the abovementioned NRO minimum requirements. However, we recommend that Al-Haq shall implement the enhancements listed in the attached report.

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Appendix A

Terms of reference presented by NRO

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Annex 1

Checklist for Organizational Capacity Assessment

	IOM element	Points for attention	Assessment
External analysis			
1	Legal framework	<p>Is the organisation legally registered?</p> <p>For NGOs/foundations: is legislation in place concerning registration and regulation of the legal and financial structure of this type of organisation? Is there official recognition by third parties or independent quality assurance?</p> <p>For government organisations: what legislation on public finance and accountability is in place?</p> <p><i>Minimum requirement: the prospective partner must be a registered legal entity with clear articles of association and a transparent structure.</i></p> <p><i>For grants: the aims of the organisation must coincide with the aim of the grant decision.</i></p> <p><i>For government partners: national legislation on public finance and accountability (such as the Government Accounts Act in the Netherlands) should be in place.</i></p>	
2	External factors	How is the functioning of the organisation influenced by external factors (political, economic, and legal)?	
3	External relations/actors	Which other organisations/actors are relevant in the sector? What opportunities and threats can be identified that may influence the results of the activity?	
4	Impact	<p>Assess the impact, sustainable or otherwise, of the activities of the organisation on users (note: gender differences / environmental differences in impact for different beneficiaries).</p> <p>To what extent are the relevant needs of the users met by the services delivered by the organisation?</p>	
Internal analysis			
5	Mission	<p>What is the organisation's mission?</p> <p>Is the organisation's mission clear, relevant and legitimate as regards satisfying the needs of the users?</p>	
6	Strategy	<p>Is there a policy or strategy document in which the organisation's mission is operationalised? If yes, describe the main priorities/goals, secondary goals, instruments and achievements of the strategy in the relevant sector or programme area.</p> <p><u>Minimum requirement:</u> the organisation should have a clear policy document concerning the relevant sector or programme area. Its main and secondary goals should be clearly linked to staff and financial inputs in a multiyear framework.</p>	

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8	Inputs	<p>Are inputs (staff, finances, infrastructure, facilities, equipment, access to information etc.) of sufficient quantity and quality to deliver adequate services? Assess the quantity and quality of inputs.</p>	
9	Structure	<p>Is the assignment of tasks within the organisation adequate and does it contribute to the delivery of good products/services? Describe and assess the internal rules. Is the hierarchic structure clear and logical? (Include an organisation chart.) Describe and assess the administrative organisation and internal control structure. (Include any AO/IC documents.) Is there separate internal supervision? Is there a controller active within the organisation? <i>Minimum requirement: the organisation should have a general description of the roles and responsibilities of its divisions and units and a clear internal accountability structure should be in place. Key positions should be occupied by individuals with sound references.</i></p>	
10	Systems	<p>Describe and assess the internal control and support systems (including financial management). Are these sufficient and effective and do they contribute to a good, accountable performance by the organisation? Are there procedures for the allocation, acquisition and spending of resources? Is there a functional management information system? Describe the main features. Is there a system for monitoring implementation? Describe the main features. Is there an acceptable procedure for the procurement of goods and services? For intermediary organisations: does the organisation perform an organisational capacity analysis on the counterparts it finances? Are sanctions applied in case of non-performing counterparts? <i>Minimum requirements: the organisation must have procedures guaranteeing an efficient and legitimate allocation of funds. General procedures concerning the procurement of goods and services and a system for monitoring implementation should be in place.</i></p>	
11	Staff performance and motivation	<p>Assess the staff's performance (quantity and quality) in key functions of the organisation in the present situation and in relation to its future activities. Does the organisation have training and incentives programme to respond to emerging organisational weaknesses?</p>	
12	Management style and capacity	<p>Are the management style and capacity adequate for the performance of the organisation? What decision-making and advisory mechanisms (formal and informal) exist in the organisation?</p>	
13	Culture	<p>Assess the organisational culture (e.g. introvert, open, progressive, conservative, cooperative, competitive, non-competitive, money/result/personal gain-oriented etc.). Is the organisational culture conducive to effective service delivery?</p>	

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14	Financial capacity and feasibility	<p>Is the organisation financially sound? List the main sources of income and expenditure over the past 3-5 years.</p> <p>Are its equity and reserves sufficient to guarantee continuity for the duration of the activity?</p> <p>Do the financial ratios (liquidity/solvability) indicate a capacity to pay outstanding short-term debts?</p> <p>Assess the soundness of the budget submitted for the activity/activities.</p> <p>Has the counterpart proven capable of reaching previous budget targets?</p> <p><i>Minimum requirement: a fully substantiated and balanced budget for the organisation (in addition to that for the activity) must be available and the counterpart should be able to show that it has been able to meet its spending targets in previous years and to avoid significant over- or underspending on its budget. The organisation must be able to meet its short-term financial obligations.</i></p>	
15	Accountability	<p>Assess the accountability and transparency of the organisation. Does it have unacceptable outstanding contractual reporting obligations relating to other activities for any budget holder?</p> <p>Is the quality of financial reporting sufficient, timely and transparent?</p> <p>Is the reporting on policy issues sufficient, timely and transparent?</p> <p>Has there been a positive independent audit of the organisation? Are audit recommendations followed up?</p> <p>For intermediary organisations: does the organisation require audits of the counterparts it finances?</p> <p>For government bodies: assess the quality, independence and capacities of the supreme audit institution (Auditor General).</p> <p><i>Minimum requirements: financial and other reports must be timely and transparent. The prospective partner may not be unacceptably overdue in satisfying reporting obligations arising from previous activities financed by the budget holder. A reporting obligation is regarded as 'unacceptably overdue' if it has not been met after two reminders have been issued (see also section 3.6 on sanctions policy).</i></p> <p><i>Government bodies should be audited by an Auditor General or Supreme Audit Institution. If there is no such body, or if the existing body does not meet the requirements of independence and professionalism, an independent audit must be carried out by an international audit company. For NGOs: an independent audit (not necessarily by an international audit company) must be possible.</i></p>	

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	Overall assessment of organisational capacity	Give your overall assessment of the organisational capacity. Are the minimum requirements fulfilled?	
		Describe any additional measures/support which are deemed necessary on the basis of this assessment. Describe which conditions, if any, should be fulfilled by the organisation to qualify for support and when these should be fulfilled. Describe any specific financial risks that have been identified and how they are covered.	
		Give a specification of source documents used. Give names and functions of resource persons interviewed.	