

Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Audit of UNHCR shelter programme for returnee Internally Displaced Persons (IDPs) in Sri Lanka**

**Overall results relating to the effective provision of shelter assistance to returnee IDPs in Sri Lanka were initially assessed as partially satisfactory. Implementation of an important recommendation remains in progress.**

**FINAL OVERALL RATING: PARTIALLY  
SATISFACTORY**

**17 July 2012**

**Assignment No. AR2011/141/05**

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# AUDIT REPORT

## Audit of UNHCR shelter programme for returnee Internally Displaced Persons in Sri Lanka

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations High Commissioner for Refugees (UNHCR) shelter programme for returnee Internally Displaced Persons (IDPs) in Sri Lanka.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNHCR Representation in Sri Lanka (the Representation) was established in 1987 to facilitate the repatriation and reintegration of the Tamil population displaced during the conflict with the Liberation Tigers of Tamil Eelam. The Representation reoriented its shelter programme for returnee IDPs in October 2009 to provide shelter assistance to returnee IDPs. The objectives of the programme were to assist IDP returnee families repair or reconstruct their damaged houses and utilize the shelter grant as a protection tool for monitoring the return process and identify the needs of vulnerable returnees like women and children requiring further support. The shelter programme was implemented with the involvement of the Representation in Colombo and sub and field offices in Vavuniya, Kilinochchi and Jaffna.
4. While the total number of IDPs exceeded 400,000, UNHCR took a policy decision to disburse the shelter grant to 280,000 refugees displaced after April 2008. The decision to restrict the grant was taken because the old IDP caseload had already received assistance from various international organizations including UNHCR and that many of them were already settled and integrated with the local population. The Representation incurred expenditures of \$4.18 in 2009 and \$10.28 million in 2010 on shelter grant disbursements.
5. Comments provided by the Representation are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

6. The audit of the UNHCR shelter programme for returnee IDPs in Sri Lanka was conducted to assess the adequacy and effectiveness of the Representation's governance, risk management and control processes in providing reasonable assurance regarding **the effective provision of shelter assistance to returnee IDPs**.
7. The audit was included in OIOS' 2011 risk-based internal audit work plan because of the significant allocation of financial resources for the programme and a request made by the client.
8. The key controls tested for the audit were: (a) risk management and strategic planning and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Risk management and strategic planning** – controls that provide reasonable assurance that risks and opportunities relating to the planning and implementation of shelter activities for IDPs in Sri Lanka are identified and that action is taken to mitigate risks and seize opportunities.

(b) **Regulatory framework** – controls that provide reasonable assurance that shelter grant activities have been carried out in compliance with UNHCR policies and procedures.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from March to June 2011. The audit covered the period from 1 January 2009 to 31 January 2011.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

12. The Representation’s governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective provision of shelter assistance to returnee IDPs in Sri Lanka**. OIOS made three recommendations to address the issues identified in the audit. The Representation has taken adequate action to implement two recommendations and implementation of one important recommendation is in progress. At the time of this report, the Representation has amended the standard operating procedures (SOPs) to mitigate the identified control weaknesses and introduced segregation of duties. OIOS tried to verify the disbursement of cash to beneficiaries but the bank did not respond to the request, and a subsequent follow-up, for information. In order to obtain assurance on the actual disbursement of cash to beneficiaries, OIOS recommended that the Auditor General of Sri Lanka audit the disbursements.

13. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of one important recommendation remains in progress.

**Table 1: Assessment of key controls**

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective provision of shelter assistance to returnee IDPs in Sri Lanka	(a) Risk management and strategic planning	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## A. Risk management and strategic planning

### Compliance with UNHCR rules on planning and assessment

14. The UNHCR Manual provides procedures for comprehensive planning and assessment before commencement of a programme. The guidance includes procedures for the assessment of the current situation, the identification of threats and opportunities, the generation of data, and the development of criteria for programme implementation. The Representation, however, did not undertake effective and efficient procedures at the planning stage, which hampered its capacity to effectively implement the programme. The Representation also did not undertake any risk assessment in advance of project implementation, which impeded its ability to effectively deal with risks that arose during project implementation particularly in relation to access and identification of beneficiaries.

15. OIOS suggested that the Representation develop procedures for planning and assessment, and conduct a risk assessment. OIOS also suggested that the Representation could have involved other cluster members in the planning and negotiations in line with the partnership and consultative approaches. *The Representation noted that these observations were very helpful as "lessons learned" but could not be practically implemented because the programme has reached its final stages.* In the circumstances, since the planning and assessment aspects of the programme have been overtaken by events, OIOS is not raising any recommendation on strategic planning.

## B. Regulatory framework

### The Representation has aligned and strengthened SOPs in field offices

16. At the time of the audit, the SOPs developed by the field offices were not in line with standard SOPs at the Representation resulting in weaknesses in controls relating to: (a) safety and handling of shelter grant forms; (b) reconciliation of disbursement vouchers with monthly bank statements received from the Bank of Ceylon (BOC); and (c) rectification of errors on the shelter grant forms.

**(1) The UNHCR Representation in Sri Lanka should ensure that field offices amend standard operating procedures to incorporate requirements relating to: (a) handling and safe custody of shelter grant forms; (b) periodic reconciliations with the Bank of Ceylon; and (c) rectification of errors.**

*The Representation accepted recommendation 1 and stated that it has amended standard operating procedures where required.* Based on OIOS' review of the revised SOPs, recommendation 1 has been closed.

### BOC failed to comply with agreement with UNHCR to provide documents in support of disbursements

17. In accordance with the Memorandum of Understanding (MOU) dated February 2011, BOC was mandated to provide monthly statements to the field offices (FOs) about the actual disbursement of cash to each beneficiary in addition to monthly bank statements to UNHCR Headquarters in Colombo. While the monthly bank statements were received by the Representation, the disbursement vouchers were not being supplied timely to the FOs by the Bank. For example since 2009, FO Vavuniya and FO Jaffna could not obtain approximately 30 and 15 per cent respectively of the disbursement vouchers. While FO Jaffna had followed up with the bank and reduced the number of missing forms, FO Vavuniya thought this was the responsibility of the programme and project units in Colombo.

18. In order to ensure accuracy and completeness of shelter grant disbursement vouchers, OIOS forwarded a sample of 100 disbursements to the BOC for verification but no response was received. A follow-up on this request was made but was unsuccessful. The risk of non-availability of disbursement vouchers was that payments in the bank statement might not actually have been made. Clause 6.2 of the MOU with BOC gives the option to UNHCR to request the Sri Lanka Auditor General to conduct a special audit of the BOC related to the record of shelter grant disbursement on payment of a requisite fee. The Representation, however, did not invoke the said clause; consequently, no assurance could be obtained on actual disbursements by the Bank.

**(2) The UNHCR Representation in Sri Lanka should request the Auditor General of Sri Lanka to audit shelter grant disbursements from UNHCR accounts with the Bank of Ceylon in accordance with clause 6.2 of the Memorandum of Understanding. The audit terms of reference should cover the accuracy and completeness of accounts and the effectiveness of the internal control system for the shelter grant disbursements.**

*The Representation accepted recommendation 2 and requested OIOS' assistance in drafting the terms of reference (TOR) for the Auditor General of Sri Lanka to audit the UNHCR accounts with the BOC and also noted that the process could take time. OIOS has provided a draft TOR to the Representation. Recommendation 2 remains open submission to OIOS of the Auditor General of Sri Lanka's audit report on the shelter grant disbursements from UNHCR accounts with the BOC.*

#### Arrangements put in place to ensure adequate segregation of duties in field offices

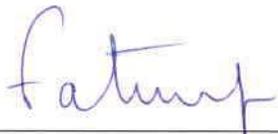
19. At the time of the audit, FOs offices had not observed the segregation of duties principle, and incompatible functions were vested in individuals increasing the risk of irregularities and fraud. For example, in FO Jaffna, the custodian of the blank shelter grant forms was also performing the tasks of: (a) signing the shelter grant forms; (b) making shelter grant disbursement arrangements; (c) coordinating with the Government of Sri Lanka staff on matters related to shelter grant; (d) maintaining and updating the database; (e) record keeping; (f) storing void or cancelled forms; (g) reporting to Headquarters; and (g) following up with beneficiaries about use of the shelter grant. Likewise, the Senior Programme Associate in FO Kilinochchi was responsible for the receipt, custody and issuance of shelter grant blank forms and was an authorized bank signatory.

**(3) The UNHCR Representation in Sri Lanka should ensure that field offices allocate the responsibilities of the custody, handling, signing, physical distribution, record keeping and reporting of blank forms to different staff to ensure segregation of duties and enhance accountability.**

*The Representation accepted recommendation 3 and stated that they have implemented segregation of duties. Based on review of the revised procedures, recommendation 3 has been closed.*

## IV. ACKNOWLEDGEMENT

20. OIOS wishes to express its appreciation to the Management and staff of the UNHCR Representation in Sri Lanka for the assistance and cooperation extended to the auditor during this assignment.



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## STATUS OF AUDIT RECOMMENDATIONS

## Audit of UNHCR shelter programme for returnee Internally Displaced Persons in Sri Lanka

Recom. no.	Recommendation	Critical/ <sup>1</sup> important <sup>2</sup>	C/ <sup>3</sup> O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	The UNHCR Representation in Sri Lanka should ensure that field offices amend standard operating procedures to incorporate requirements relating to: (a) handling and safe custody of shelter grant forms; (b) periodic reconciliations with the Bank of Ceylon and (c) procedures for rectification of errors.	Important	C	Implemented	
2	The UNHCR Representation in Sri Lanka should request the Auditor General of Sri Lanka to audit shelter grant disbursements from UNHCR accounts with the Bank of Ceylon in accordance with clause 6.2 of the Memorandum of Understanding. The audit terms of reference should cover the accuracy and completeness of accounts and the effectiveness of the internal control system for the shelter grant disbursements.	Important	O	Submission to OIOS of the Auditor General of Sri Lanka's audit report on the disbursement of shelter grant funds from UNHCR accounts with the Bank of Ceylon	December 2012
3	The UNHCR Representation in Sri Lanka should ensure that field offices allocate the responsibilities of the custody, handling, signing, physical distribution, record keeping and reporting of blank forms to different staff to ensure segregation of duties and enhance accountability	Important	C	Implemented	

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by the UNHCR Representation in Sri Lanka in response to recommendations.