



Assurance review of Sri Lanka Office

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International Federation of Red Cross and Red Crescent Societies
Fédération internationale des Sociétés de la Croix-Rouge et du Croissant-Rouge
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1. Introduction

1.1. Area subject to review

1. The IFRC Sri Lanka Office in Colombo is now part of the Country Cluster Support Team (CCST) Delhi after an organisational restructure in 2017. In addition to normal operations in the country and supporting the Sri Lanka Red Cross Society (SLRCS) in national society development initiatives, the IFRC Office has taken up the role as an implementing agency for construction programmes with the SLRCS in the central region of the country. The Office in Sri Lanka had 11 national staff and one international staff member when we visited.
2. This internal audit considers the wider context, including the work with the SLRCS and other stakeholders, the framework of controls, policies and procedures and their impact on local risk management in the context of Sri Lanka.

1.2. International Federation of the Red Cross and Red Crescent Societies context

3. Since OIAI last audit in 2010 the office has scaled down to a single office in Colombo as recovery operations reduced on the 2004 Tsunami and Red Cross Red Crescent partner national societies left the country. The operational plan for Sri Lanka for 2018 was included in the CCST Delhi Plan.
4. The main aim of the Office is to provide support to the SLRCS in various national society development initiatives and emergency appeals. Within a span of the last two years, two separate emergency appeals on floods and landslides were launched.

1.3. Rationale for the review

5. Our last internal audit of the Office was performed in December 2010. It was completed when the IFRC and partner national societies in country joined efforts in supporting the Sri Lanka Red Cross Society on post-tsunami programmes and resettlement programmes for internally displaced people due to the past civil war.
6. In the last two years, the IFRC has received significant funds to support construction projects in the central region of the island. The IFRC also provided funding for the construction of the SLRCS's new headquarters office in Colombo. We included the Sri Lanka Office in our 2018 internal audit plan as it was eight years since our last internal audit, and the risk environment has changed more recently since the tsunami programme ended. This internal audit was performed in August 2018 and was part of our 2018 *Internal Audit Plan* as approved by the Secretary General.

2. Scope of Audit

7. The main objectives of the audit were as follows:
 - Review and assess the adequacy and effectiveness of the Office processes, systems and internal controls (including the review of segregation of duties, delegation of authority and risk management).
 - Appraise the economic and efficient use of resources and the safeguarding of assets.
 - Assess compliance with local law, regulations and the Federation Secretariat's policies and procedures by the Country Office.
 - Assess the reliability and integrity of financial and operational information, and the means to report such information.
 - Follow-up on previous agreed audit recommendations (where applicable).

3. Review Findings

3.1. Good practice identified

8. We identified the following examples of good practice:

- The Housing Project team prepares a Quarterly Progress Report to inform managers of the status of implementation and key challenges in implementation of activities.
- Files for each recipient of support under the Housing Project in Central and Uva Provinces are kept by the programme.

Key issues and risks identified

9. The following key risks were identified at country level from this review:

- **Risk in procurement using working advance systems** – Our review of the process and supporting documents indicated risks around the procurement of printing services.
- **Risk management within the Sri Lanka Office** – There is an inadequate risk analysis specific to the IFRC Sri Lanka office.
- **Organisational change of the IFRC offices** – The change management process had certain critical roles in Sri Lanka reassigned to staff in the Country Cluster Support Team Office in Delhi which may impact the Sri Lanka office.
- **Project and appeal management** – There is a risk of project delays and project extensions due to the limited capacity to report progress. The appeal revision process started late, further affecting an updated announcement to the public and donors.
- **Expenditure supporting documentation** – Due diligence checks on document content are not performed, potentially increasing the risk of errors and undetected issues. Checks on documents are limited to compliance, assessing the completion of documents only.
- **Risks of the new office premises** – Offices were set up in a building with ongoing construction. The move was made without a thorough security risk assessment and exposed the IFRC to various risks associated with construction sites.
- **Procurement process** – Due diligence checks on IFRC suppliers are not documented, thereby increasing risks.

10. The following risks/issues were identified at the programme and project level during the course of our review:

- **Housing Programme in Central and Uva Provinces** – The project is at risk of not completing within the timeframe and is delayed mainly due to coordination issues with the various local stakeholders. Certain potential issues around the delays, such as land and beneficiary selection process, were discussed in meetings between the stakeholders, but progress had been slow to deliver a resolution.
- **Construction using working advances** – We noted various construction projects performed through working advances were lacking in key stage controls, such as confirmation on the satisfactory completion of construction, or checks against figures in the bill of quantities used for construction.

3.2. Follow up

11. The last internal audit of the Sri Lanka office was in December 2010. It was performed when the IFRC had a larger presence in-country supporting the tsunami programmes. Higher risk issues highlighted during the last internal audit were mainly related to clarity of tax exemption status and tsunami construction project management. Issues relating to the taxes have been resolved since our last audit, and the tsunami construction project has been completed.

3.3. Summary IFRC management response

12. This internal audit report identifies several important issues and shortcomings that will need to be addressed pro-actively by IFRC management at country, CCST, regional and the global level to reduce risks. Some of the issues identified are systemic and long-standing challenges with origins dating back even to the pre-tsunami era.
13. At the same time it should be noted that the timing of the audit coincided with a forced and slightly premature move from temporary buildings.
14. We, and our partners, have recognised the need to improve internal procedures to reduce financial, legal and reputation risks, and the strong references to a transparency and accountability framework in a newly adopted strategy are clearly to be welcomed. We have also agreed to work towards a comprehensive and transparent costing policy, and a first phase review has been completed. Such vital changes will take time, resources and leadership but will also require further encouragement, sustained guidance and support. It is hoped that this can be provided particularly through the provision of high-quality technical support in finance development.