

ISSAI 5520

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INTOSAI



## *Audit of disaster-related aid*

# INTOSAI



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## Part 1 Disaster and disaster management

### 1 Background

- 1.1 Disaster can strike any part of the world at any time. It may be the result of natural (e.g. floods) or man-made (e.g. nuclear accidents) causes, or a mixture of the two and can occur suddenly (e.g. earthquakes) or develop slowly (e.g. drought). Whatever the cause, the human and economic impact of disaster can be considerable.
- 1.2 Since 2001, the annual average number of deaths from disasters is 106,891 and the yearly average number of reported victims is 232 million people.<sup>1</sup> The overall number of victims is typically the highest in Asia. However, in 2011 African countries dominated the top ten in terms of disaster victims as a proportion of total population size.<sup>2</sup> Economic damage in 2011 was the highest ever registered, at an estimated USD 366.1 billion. This was largely due to the Great East Japan Earthquake, but reflected the increasing occurrence of disasters in high-income and middle-income economies.<sup>3</sup> The United Nations estimates that in the first 12 years of the twenty-first century alone disasters claimed 1.1 million lives and caused USD 1.3 trillion in economic damage.<sup>4</sup>
- 1.3 In a disaster situation, individuals, communities, governments and international agencies act very quickly. Assistance and aid flow toward the affected area. The emphasis is on saving lives, alleviating poverty and hardship and maintaining human dignity. Throughout the emergency response, relief, rehabilitation and reconstruction activities of the post-disaster phase, order has to be maintained and normality has to be regained. SAIs have a vital contribution to make in keeping governments and others managing disaster-related aid accountable to parliaments and citizens for the use of resources. The issue of accountability is fundamental to the legitimacy of the state and the continued operation of the political system. This has been recognised in recent years, for example, by the Inter-Agency Standing Committee Transformative Agenda.<sup>5</sup> INTOSAI is part of the worldwide movement for greater transparency and accountability.

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<sup>1</sup> Centre for Research on the Epidemiology of Disasters, Annual Disaster Statistical Review 2011, page 23, [http://cred.be/sites/default/files/2012.07.05.ADSR\\_2011.pdf](http://cred.be/sites/default/files/2012.07.05.ADSR_2011.pdf)

<sup>2</sup> Ibid., page 13

<sup>3</sup> Ibid., page 1

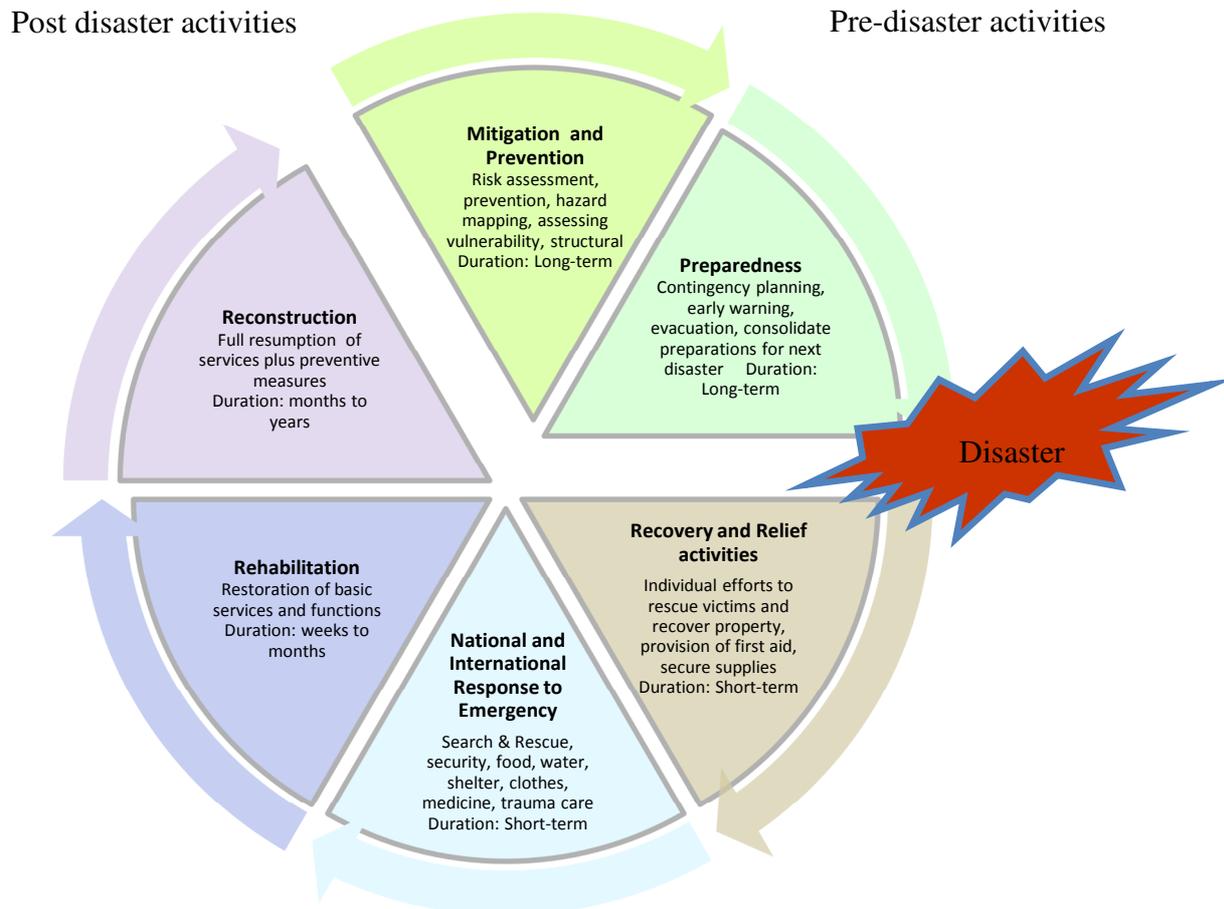
<sup>4</sup> <http://www.flickr.com/photos/isdr/6853316682/in/set-72157628015380393/>

<sup>5</sup> <http://www.humanitarianinfo.org/iasc/pageloader.aspx?page=content-about-default>

## 2 Purpose, scope and structure

2.1 The 5500 series of ISSAIs includes three ISSAIs on auditing the different parts of the disaster management cycle. The pre-disaster phase is covered in ISSAI 5510. ISSAIs 5520 and 5530 cover the post-disaster phase (recovery and relief activities, national and international response to emergency, rehabilitation and reconstruction). ISSAI 5520 addresses the audit of the whole of the post-disaster phase while ISSAI 5530 focuses on taking account of the increased risk of fraud and corruption in the emergency activities following disaster. The disaster management cycle shown in figure 1 divides the activities supported by disaster-related aid into six segments. Two of these relate to the preventive and preparatory measures which government can establish and operate in advance of potential disaster. The other four segments describe the activities which follow the occurrence of disaster.

**Figure 1: Disaster management cycle showing pre- and post-disaster phases**



Source: Prepared for WG AADA by the SAI of Indonesia

2.2 The **post-disaster phase** begins as soon as disaster strikes or an emergency is declared. Initially the focus is on recovery and relief activities. These are followed by rehabilitation and reconstruction activities. The activities supported by disaster-related aid can last only a few days where physical and economic damage are not great and

the main focus is on recovery and relief, or many months and even years where the reconstruction effort required is considerable.

- 2.3 The 5500 series of ISSAIs on disaster-related aid focuses on natural disasters, although the guidance and good practice cited is equally relevant to the audit of man-made disasters. The ISSAIs have been prepared for SAI auditors but can be used by other auditors or stakeholders in the field of disaster-related aid. ISSAI 5520 is not compulsory for SAIs and should not be used as standalone guidance. It should be used to supplement the level 3 and level 4 ISSAIs, which are published by INTOSAI and available on the website of the Professional Standards Committee.<sup>6</sup>
- 2.4 ISSAI 5520 provides examples of auditing disaster-related aid<sup>7</sup> and includes an example of guidelines for private sector auditors of disaster-related aid (Appendix 4). ISSAI 5520 is structured as follows:

**Part 1** defines disaster and the different phases of disaster management.

**Part 2** defines disaster-related aid and key players and features of disaster-related aid and develops a matrix of the key topics and risks in the management of disaster-related aid.

**Part 3** highlights aspects of the audit process illustrated by the experiences of SAIs which have audited disaster-related aid: cooperation between auditors, information and data gathering, selection of audit topics, financial, performance and compliance auditing of disaster-related aid, reporting disaster-related aid and tools for auditing disaster-related aid.

### 3 Definition of terms

- 3.1 The UN ISDR defines **disaster** as follows:

“A serious disruption of the functioning of a community or a society causing widespread human, material, economic, or environmental losses which exceed the ability of the affected community or society to cope using its own resources.”<sup>8</sup>

- 3.2 Disasters exhibit different characteristics depending on a number of factors.

- *Length of forewarning* – how much advance notice is given to people at risk at disaster.
- *Magnitude of impact* – the extent of losses of people, infrastructure and buildings and disruption to the social structure and essential functioning of a community.

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<sup>6</sup> [www.issai.org](http://www.issai.org)

<sup>7</sup> The SAI of Indonesia conducted a survey to collect examples and led a parallel audit to test ISSAI 5510. The other participants in the parallel audit were the SAIs of India, Pakistan and Turkey. See WG AADA final report.

<sup>8</sup> [http://www.unisdr.org/files/7817\\_UNISDRTerminologyEnglish.pdf](http://www.unisdr.org/files/7817_UNISDRTerminologyEnglish.pdf)

- *Geographical scope of impact* – geographical features susceptible to designation of a disaster area. A natural hazard without human vulnerability—such as a landslide in an uninhabited zone—will not result in the designation of a natural disaster area.
- *Duration of impact* – the period (short or long) during which the effects of a disaster are felt.
- *Speed of onset* – how fast a disaster strikes an area. For example, floods may strike rapidly, while a volcanic eruption or a drought may take longer to have an impact.

### 3.3 Disasters have a number of consequences.<sup>9</sup>

- *Disruption* to the normal pattern of life. Such disruption is usually severe and may also be sudden, unexpected and widespread.
- *Human effects* such as loss of life, injury, hardship and adverse effects on health.
- *Effects on social and physical structures* such as destruction of or damage to government systems, buildings, communications and essential services.
- *Community needs* such as shelter, food, clothing, medical assistance and social care.

### 3.4 For inclusion in the International Emergency Disasters Database (EM-DAT) maintained by the Centre for Research on the Epidemiology of Disasters (CRED) a disaster should meet at least one of the following criteria:<sup>10</sup>

- 10 or more people reported killed;
- 100 people reported affected;
- declaration of a state of emergency; or
- a call for international assistance.

### 3.5 Disasters can occur as a result of natural or man-made causes, or a mixture of the two. Natural disasters can result from geophysical, hydrological, climate-related, meteorological or biological phenomena. Technological or man-made disasters are events caused by humans and occurring in or close to human settlements and may include environmental degradation, pollution and accidents. The Asian Development Bank (ADB) divides disasters into 11 types: earthquake, volcanic eruption, tsunami, tropical cyclone (typhoon, hurricane), flood, landslide, bushfire (or wildfire), drought, epidemic, major accident and civil unrest. The characteristics of different types of disaster, their counter measures and problem areas are explored in Appendix 1.

### 3.6 The International Federation of Red Cross and Red Crescent Societies (IFRC) defines **disaster management** as:

“the organisation and management of resources and responsibilities for dealing with

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<sup>9</sup> W. Nick Carter. *Disaster Management: A Disaster Manager's Handbook*. Manila: ADB. 1991.

<sup>10</sup> <http://www.emdat.be/>

all humanitarian aspects of emergencies, in particular preparedness, response, and recovery in order to lessen the impact of disasters. The main focus of disaster management is to reduce or avoid loss caused by disasters, assure prompt assistance to victims, and achieve rapid and effective recovery.”<sup>11</sup>

While countries define their own disaster management policies to establish and maintain adequate arrangements to deal with their vulnerability to disaster, disaster management is also a shared responsibility between government, the private sector and civil society. Effective coordination between these different actors is a prerequisite for successful disaster management.

3.7 The disaster management cycle in figure 1 shows activities in the pre-disaster and post-disaster phases. In practice, there is no clear division between these phases and disaster management activities are carried out in the different phases as appropriate to each disaster and to the way in which and the extent to which the population is affected. For example, rehabilitation activities may continue to be carried out in emergency circumstances months after the occurrence of the disaster and disaster preparedness activities may begin immediately after the occurrence of a disaster to take better account of the lessons learnt from that disaster.

3.8 The aim of **pre-disaster activities** is to reduce the potential loss of life and property caused by a disaster and the development of disaster management plans at the household and community level. Such activities include the prevention of hazards from developing into disasters or the reduction of the effects of disasters when they occur. These measures can be structural such as flood barriers or the strengthening of weak buildings and infrastructure, or non-structural such as legislation, land-use planning (for example the designation of non-essential land, such as parks, to be used as flood zones) and insurance. Other pre-disaster activities involve the development of action plans for what to do if a disaster strikes, for example:

- preparing and communicating action plans;
- developing a multi-agency coordination mechanism and line of command for post-disaster structures;
- carrying out maintenance and training of emergency services resources and personnel;
- developing and testing emergency warning methods;
- maintaining supplies and equipment related to emergency shelters and
- evacuation plans.<sup>12</sup>

3.10 In recent years some SAIs have themselves experienced severe disruption following the occurrence of disaster. In the aftermath of a disaster, SAIs may not only need to recover the ability to function quickly and easily, but also to provide appropriate assistance to government in responding to the disaster.<sup>13</sup> Due to the potential impacts of disasters it is important for SAIs to plan in advance and put arrangements in place

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<sup>11</sup> [www.gdrc.org/uem/disasters/1-dm\\_cycle.html](http://www.gdrc.org/uem/disasters/1-dm_cycle.html)

<sup>12</sup> See ISSAI 5510 for more on Disaster Risk Reduction

<sup>13</sup> See Audit New Zealand’s account of “Audits in challenging times” following the Canterbury earthquakes in 2010 and 2011 <http://www.auditnz.govt.nz/who-we-are/scott-tobin-feature>

that will help them recover and start functioning as soon as practically possible. For that reason, SAIs, and particularly those located in disaster prone areas, develop their own business continuity plan. INTOSAI's Capacity Building Committee has published a guide on business continuity to assist SAIs.<sup>14</sup>

3.11 When disaster strikes urgent action is necessary to ensure that victims' needs are met and losses are minimised. The **post-disaster phase** begins with emergency activities which focus on **recovery, relief and initial rehabilitation**. The type of response depends on the immediate requirements of the affected people and can include rescue, medical attention, water, food and communication. These activities are mainly directed towards saving lives, protecting property and dealing with the immediate disruption, damage, and other consequences of the disaster. They can continue for just hours or days after the disaster takes place up to several months, depending on the nature and extent of the disaster and on how well-prepared the affected region and population were for the possibility of disaster.

3.12 Once the urgency abates, activities concerned with the continued rehabilitation and reconstruction of affected areas or communities commence. **Rehabilitation** is a short- to medium-term activity and involves taking care of the victims of the disaster and re-establishing basic facilities. Urgent, initial rehabilitation activities can begin during the emergency. **Reconstruction** has the longer-term objective of restoring living conditions to a level equal to or better than before the disaster struck. There will inevitably be overlapping activities that can be classified as rehabilitation or reconstruction. Rehabilitation and reconstruction activities aim to rebuild destroyed property, repair of other essential infrastructure and re-establish the functioning of the local economy.

3.13 ISSAI 5520 is concerned with the post-disaster emergency recovery and relief, rehabilitation and reconstruction activities summarised in Table 1.<sup>15</sup> Auditors of the pre-disaster phase should consult ISSAI 5510 for guidance and good practice.<sup>16</sup>

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<sup>14</sup> <http://cbc.courdescomptes.ma/index.php> The Capacity Building Committee prepared and published this guide in association with the Pacific Association of Supreme Audit Institutions and the Caribbean Organization of Supreme Audit Institutions

<sup>15</sup> Table prepared by the SAIs of the Netherlands and Indonesia

<sup>16</sup> <http://www.issai.org/composite-280.htm>

**Table 1: Post-disaster phase activities: Emergency (recovery and relief) and non-emergency (rehabilitation and reconstruction)**

	Emergency Recovery and Relief	Rehabilitation	Reconstruction
Timing/ Period	<i>Urgent</i> Immediately during or shortly after disaster. Normally counted in days up to 3 months after disaster	<i>Short term</i> Up to 1 year after emergency phase	<i>Medium-long term</i> Up to 5 years or more after rehabilitation phase
Target	Saving lives	<ul style="list-style-type: none"> <li>• Taking care of victims</li> <li>• Developing basic public facilities (at a minimum level)</li> </ul>	Restoring living conditions
Purpose	<ul style="list-style-type: none"> <li>• Victim search and rescue</li> <li>• Burial of the dead</li> <li>• Supply of food and drinking water</li> <li>• Emergency medical care</li> <li>• Provision of basic facilities</li> <li>• Delivery of materials to the affected areas</li> </ul>	<ul style="list-style-type: none"> <li>• Treating the sick and injured</li> <li>• Preventing outbreaks of cholera, malaria, and other communicable diseases</li> </ul> Rebuilding: <ul style="list-style-type: none"> <li>• Basic infrastructure and facilities</li> <li>• Economic facilities</li> <li>• Trauma care facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Construction of permanent housing</li> <li>• Development of economic sectors (production, trade, banking sectors)</li> <li>• Restoration of public infrastructure (transportation and telecommunication systems)</li> </ul>
Examples	<ul style="list-style-type: none"> <li>• Emergency food and medical aid</li> <li>• Emergency distress relief</li> <li>• Meeting basic needs of refugees</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of health care supplies</li> <li>• Establishment of temporary housing and sanitation facilities</li> <li>• Establishment of access between affected area and the chain of supply and support</li> </ul>	<ul style="list-style-type: none"> <li>• Rebuilding social/cultural systems</li> <li>• Re-establishing human capacity</li> <li>• Rebuilding housing, schools, clinics, sanitation systems</li> </ul>
Responsible entity	<ul style="list-style-type: none"> <li>• Government</li> <li>• Donors</li> <li>• NGOs / INGOs</li> <li>• Other parties</li> </ul>	<ul style="list-style-type: none"> <li>• Government</li> <li>• Reduced, but still important role: donors, NGOs/INGOs and other parties</li> </ul>	<ul style="list-style-type: none"> <li>• Government</li> <li>• Reduced but still important role: donors, NGOs/INGOs and other parties</li> </ul>

## Part 2: Disaster-related aid

### 4 Definition of disaster-related aid

#### 4.1 The UN defines **disaster-related aid** as:

“aid provided to help people, who are victims of a natural disaster or conflict, meet their basic needs and rights.”<sup>17</sup>

Disaster-related aid is provided to the victims of disaster who are unable to get enough of the help they need from their own community or local authorities. Disaster-related aid is mostly humanitarian aid designed to save lives, alleviate suffering and protect human dignity, but also includes aid which is non-humanitarian (e.g. to protect wildlife). Global Humanitarian Assistance defines **humanitarian aid** as: “the aid and action designed to save lives, alleviate suffering, and maintain and protect human dignity during and in the aftermath of emergency”.<sup>18</sup> The Development Assistance Committee of the OECD reports humanitarian aid as making up around 9% of Official Development Assistance in 2009.<sup>19</sup> It is provided for specific emergency situations and is intended only for the victims of the disaster concerned. United Nations General Assembly Resolutions 46/182 of 1991 and 58/114 of 2004 stipulate that humanitarian aid should be provided in accordance with the principles of humanity, neutrality, impartiality and operational independence.<sup>20</sup> This marks it out from development aid which can be subject to some conditionality.

#### 4.2 Disaster-related aid can be provided to an individual, community, organisation or government as cash or financial aid and in-kind aid, or a mixture of these. **Financial aid** is cash or other monetary assistance. **In-kind aid** is assistance in the form of materials or services, such as food, tents, and the secondment of staff or international military assistance.<sup>21</sup> Different types of aid are appropriate depending on the nature of the disaster, the affected region and the needs of the population. Disaster-related aid may be from public or private sources. The type of donor varies with the type of disaster, the nature and magnitude of the disaster’s impact and on public reaction to the disaster.

## 5 Roles and responsibilities

#### 5.1 Many individuals and entities are involved in providing, coordinating, delivering and reporting on disaster-related aid. This is illustrated in figure 2 reproduced from the Global Humanitarian Assistance website.<sup>22</sup>

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<sup>17</sup> <http://fts.unocha.org/pageloader.aspx?page=AboutFTS-definitions>

<sup>18</sup> [www.globalhumanitarianassistance.org/data-guides/concepts-definitions](http://www.globalhumanitarianassistance.org/data-guides/concepts-definitions)

<sup>19</sup> <http://reliefweb.int/report/world/towards-better-humanitarian-donorship-12-lessons-ocddac-peer-reviews>

<sup>20</sup> [http://ochanet.unocha.org/p/Documents/OOM\\_HumPrinciple\\_English.pdf](http://ochanet.unocha.org/p/Documents/OOM_HumPrinciple_English.pdf)

<sup>21</sup> <http://fts.unocha.org/pageloader.aspx?page=AboutFTS-definitions>

<sup>22</sup> <http://www.globalhumanitarianassistance.org/data-guides/humanitarian-aid-network>

Figure 2: Financing, delivering and reporting on the response to humanitarian crises



5.2 UN Humanitarian Resolution 46/182 of 1991 states that the country affected by disaster has the primary role in the initiation, organisation, coordination and implementation of humanitarian assistance within its territory.<sup>23</sup> When the capacity of national and local government is surpassed, the timely involvement of the international humanitarian system can significantly alleviate the hardship suffered by stricken communities. Central governments can anticipate such scenarios by preparing regulatory frameworks at national level to minimise bureaucratic obstacles to disaster-related aid. The IFRC has produced guidance on this.<sup>24</sup>

5.3 For all types and magnitudes of disasters, central government should seek to provide a coordinating role and pass on information on the needs of the affected communities. When disaster strikes, rapid needs assessments should be made and the appropriate information should quickly be made available to donor entities and international agencies. Entities have been created to speed up the communication of such vital information, for example the Central Emergency Response Fund (CERF). This is a humanitarian fund established by the United Nations General Assembly in 2006 to enable more timely and reliable humanitarian assistance to those affected by natural disasters and armed conflicts.<sup>25</sup>

5.4 When the international community becomes involved the key players adopt one or more of the following roles as **aid providers**:

- **Donors** are entities which provide either financial or in-kind contributions, either directly to beneficiaries (those affected by disasters) or to governments or operational agencies who will provide goods and services to beneficiaries. Donors thus comprise governments (international, domestic and local) and private donors (philanthropic organisations, corporate donors and individuals).
- **Operational agencies** use the funds from donors to provide goods and services to at-risk and affected populations. They include the various components of the Red Cross Red Crescent movement, United Nations agencies, faith based organisations and NGOs – both international and national. Operational agencies can be intermediary entities which receive aid and pass it on to other entities for implementation, or they can carry out activities directly themselves.
- **Others** may include the multilateral development banks, which play a major role as donors and in managing multi-donor funds, and the armed forces, which may be called to intervene when a situation is beyond the capacity of the local civil administration.

5.5 Aid **recipients** can either be individuals or communities affected by the disaster, or entities which act as intermediaries and dispense aid to victims or pass it on to operational agencies:

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<sup>23</sup> Harvey, Paul. Towards Good Humanitarian Government: The Role of the Affected State in Disaster Response. HPG Policy Brief 37. 2009

<sup>24</sup> <http://www.ifrc.org/en/what-we-do/idrl/idrl-guidelines/>

<sup>25</sup> See <http://www.unocha.org/cerf/about-us/who-we-are>

- multilateral organisations - United Nations agencies and the World Bank, etc.,
- NGOs and Civil Society Organisations (CSOs) – these can be based in the donor or recipient countries,
- International Federation of the Red Cross and Red Crescent (IFRC), or
- other entities.<sup>26</sup>

5.6 **Final beneficiaries** of humanitarian aid are individuals and communities of the affected population for whom the disaster-related-aid is donated.

## 6 Features of disaster-related aid for consideration by auditors

6.1 Disasters can create unique and unprecedented situations with complex aid flows and multiple actors. SAIs need to address these challenges to conduct their audits effectively. SAIs of both recipient and donor governments audit disaster-related aid which passes through public accounts. In many cases this can involve examining aid paid directly to operational agencies which are not part of government. Whether SAIs have an obligation or a right to audit disaster-related aid and the type and extent of that audit depends on the mandate of each SAI. However, public expectations are clearly that SAIs work to report on whether the intentions of donors and the interests of aid recipients are being met. For more on this, auditors can consult a tool prepared by the Active Learning Network for Accountability and Performance in Humanitarian Action based on OECD guidance on evaluating humanitarian assistance.<sup>27</sup>

6.2 Special consideration should be given to post-disaster emergency activities. The nature and circumstances of an emergency response require a degree of flexibility and immediate decision-making that may mean disregarding existing procedures or laws or applying them via abbreviated processes in order to save lives. Despite this, it would still be expected that there would be a legal framework underpinning emergency procedures.<sup>28</sup> There is often an increased risk of fraud and corruption in emergency situations. Auditors can recommend improvements in disaster management to minimise the risks of fraud and corruption in the event of a future disaster.<sup>29</sup>

6.3 When the emergency is over the need for flexibility should diminish and auditors can check the prompt return to normal rules and procedures. Once rehabilitation and reconstruction activities commence, auditors may consider the risk of fraud and corruption in procurement associated with high volumes of public expenditure on reconstruction projects. There are also important issues around tax revenues and insurance recoveries which may require careful examination by auditors.<sup>30</sup>

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<sup>26</sup> [http://www.globalhumanitarianassistance.org/wp-content/uploads/2012/07/GHA\\_Report\\_2012-Websingle.pdf](http://www.globalhumanitarianassistance.org/wp-content/uploads/2012/07/GHA_Report_2012-Websingle.pdf) page 43

<sup>27</sup> <http://www.alnap.org/resources/guides/evaluation/ehadac.aspx>

<sup>28</sup> See “Fundamentals of Emergency Management” of the US Federal Emergency Management Agency for guidance to auditors <http://www.training.fema.gov/EMIWeb/IS/IS230B/IS230bCourse.pdf>

<sup>29</sup> See ISSAI 5530 <http://www.issai.org/composite-280.htm>

<sup>30</sup> See for example the New Zealand experience <http://www.auditnz.govt.nz/who-we-are/scott-tobin-feature>

- 6.4 Auditors need to understand the entire process of disaster management, including the management of disaster-related aid and to be aware of how the main participants and stakeholders operate. They should also be aware of each main participant's arrangements for audit and be familiar with any disaster management plan which exists (including any revisions), as well as accounting practices and national legal requirements. SAI auditors may need to be trained in the key skills required to audit disaster-related aid. They may consider the use of a multi-disciplinarian team which could include methodologists, engineers, economists, etc., to supplement their need for key skills required for the audit. All of these aspects should be taken into consideration by auditors when planning the audit.
- 6.5 A unique feature of disaster-related aid is the impact it can have on saving lives and property and restoring human dignity. This is because however well-prepared governments, communities or individuals plan to be, they can never be prepared enough to avoid all adverse effects of major disasters. Auditors can measure the effectiveness of disaster-related aid in terms of results, the most direct examination of which can be achieved by consulting the intended final beneficiaries of the aid. To do this SAIs can actively seek the input of the affected population by use of interviews and surveys and by consulting civil society organisations. SAIs can consider sending auditors on-the-spot at an early stage of the emergency to record evidence of the way in which disaster-related aid was implemented from the point of view of the disaster victims.

## 7 Risk factors for different disaster-related aid activities

- 7.1 In planning and conducting their audit work, SAI auditors should identify risk factors and conduct a risk assessment.<sup>31</sup> Risk can be expressed as the possibility of future harm - where harm is taken to mean any undesired event or outcome.<sup>32</sup> In this context, auditors can focus on:
- the establishment by government of legal and institutional frameworks,
  - the definition and implementation of policies and
  - the management of disaster-related aid by governments and disaster management agencies.
- 7.2 The following paragraphs describe nine activities related to **the management of disasters and disaster-related aid**. Seventeen **risk factors** are then highlighted which relate to the environment, organisations, systems, controls and people operating in the field of disaster-related aid. The activities and risk factors are summarised in a matrix shown in Table 2. Auditors can select topics and explore the risks associated with each of them to plan and conduct an audit of disaster-related aid.

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<sup>31</sup> ISSAI 100/50 (unrevised)

<sup>32</sup> Aid risks in fragile and transitional contexts OECD, 2010. <http://www.oecd.org/development/incaf/47672264.pdf>

## **The management of disasters and disaster-related aid**

### 1) *Damage and needs assessment*

The damage and needs assessment process is a means of identifying the damage caused by a disaster, the location of the victims and their basic requirements. The assessment is then used to guide those providing shelter, emergency food and water and distributing donations or financial relief.

### 2) *Aid selection*

The aid provided should meet the victims' particular needs. Damaged or obsolete stocks should be avoided. The selection of aid is more effective if it is based on a proper needs assessment.

### 3) *Aid collection*

Aid is collected from donors. Aid collection begins with the agreement between donor and recipient countries, followed by the commitments made by parties engaged in the agreements and ends with the disbursement itself.

### 4) *Procurement*

Financial aid can be used for procuring the necessary goods and services to meet the victims' needs. Procurement processes should be as cost-effective as possible with due attention to questions of quality, quantity and timeliness.

### 5) *Storage*

Goods and materials, whether donated in kind or purchased using financial aid are inventoried and stored so that they can be retrieved as required to meet the victims' needs.

### 6) *Distribution*

Distribution is the process of moving goods and materials from storage to the disaster victims, either directly or through the appropriate distribution channels.

### 7) *Infrastructure building*

Infrastructure damaged or destroyed by disaster must be repaired or rebuilt and made operational. At the same time, new infrastructure can be constructed to prevent and mitigate future potential disasters.

### 8) *Reporting*

Recipients of disaster-related aid should report on the management and use of financial and in-kind contributions received.

### 9) *Accountability*

Donors require recipients of disaster-related aid to account for their management and use of funds and in-kind contributions received. This can result in multiple reporting by recipients who are expected to comply with the individual accountability and audit requirements of each donor. This can create a heavy burden on recipients and may

lead to the diversion of resources away from relief and reconstruction activities.<sup>33</sup> The provision of information for the purposes of accountability, whether in an *ex ante* investigation or an *ex post* requirement of disclosure may improve transparency.

## **Risk factors**

### **A. Delay**

When a disaster occurs, the first priority is that aid be given promptly in order to save lives and meet victims' needs. Delays in the collection and distribution of aid may be caused by unfamiliarity with the immediate disaster response protocol, infrastructure damage or unsuitable human and organisational resources.

### **B. Unintended recipients**

Disaster managers should conduct a needs assessment to ascertain the number of victims and determine their specific requirements. The definition of victims and the procedure for registering them should be clearly set out. Unintended recipients are people who are not entitled to receive aid. Inadequate demographic data may result in misleading information on victims and ultimately cause aid to be channelled away from needy individuals/communities.

### **C. Undistributed funds/materials/aid**

Financial and in-kind aid not distributed to the victims is of no use. Inappropriate human or organisational resources, a lack of information on the procedure for requesting and distributing aid and damaged infrastructure may cause aid to remain in storage. Another reason for non-distribution might be an inappropriate needs assessment, resulting in the delivery of aid or materials that are unnecessary or unsuitable for the culture or circumstances of the affected population.

### **D. Fiduciary controls**

Rapid response to disaster-aid is critical in the effort to minimise damage from natural or man-made disasters. To deliver services and goods swiftly to the affected population, the procurement processes and flow of funds must be well-defined and tested in advance and include sufficient flexibility to accommodate unexpected events in post-disaster environments. These processes should have built-in mechanisms to detect delivery bottlenecks and to make adjustments to processes during implementation.

### **E. Fraud and corruption**

Appropriate internal control standards and mechanisms to prevent fraud and corruption should be established and operational. Following disasters, substantial flows of aid arrive quickly, which may provide the opportunity for fraud and corruption in the form of overstated needs and data manipulation (for example

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<sup>33</sup> INTOSAI GOV 9250 proposes a framework for unique reporting of humanitarian aid. See <http://www.issai.org/composite-194.htm>

exaggerating the number of victims), demands for kickbacks from suppliers and those applying to receive aid, as well as mark-ups and embezzlement or asset theft.<sup>34</sup>

#### ***F. Poor economy***

Particular attention should be paid to questions of economy when using disaster-related aid to procure goods and services for disaster victims (i.e. not paying significantly more than the normal market price). During the emergency phase, lives should not be risked for the sake of economy, but such purchases should be clearly documented. In the reconstruction phase, when the main purpose is to rebuild infrastructure, procurement procedures must follow the established rules and regulations and any exceptions provided for during the emergency phase can no longer apply.

#### ***G. Inflation***

In the aftermath of disaster there is high demand for skilled labour, building materials, building equipment and housing. High demand for scarce resources leads to higher prices and thus to the risk of overspend of available budgets. High prices can lead to lower output and/or poor quality (for example, houses).

#### ***H. Inefficiency***

Disaster-related aid should be used efficiently (i.e. maximum success in meeting victims' needs with aid received). This is of particular importance during the reconstruction phase, where resources are used for building infrastructure: unnecessary or overlapping works should be avoided and waste minimised.

#### ***I. Ineffectiveness***

The use of disaster-related aid should be used as effectively as possible. Ineffectiveness results where the aid received is used up without the victims' needs being met. For example, when rebuilding infrastructure, governments and disaster management agencies must take into account the suitability of the infrastructure to the local conditions, culture and geography.

#### ***J. Financial statement risk***

A financial statement risk is the risk that financial statements have been materially misstated. When auditing financial statements (which include aid receipts), auditors should test the validity of management "assertions" regarding existence, completeness, rights and obligations, valuation and allocation, presentation and disclosure.

#### ***K. Unrecorded aid***

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<sup>34</sup> In the emergency phase, auditors should use their professional judgment when assessing the possibility of fraud, since many infrastructures may be damaged and people (including the aid managers) may exhibit unusual behaviour. The auditor should check the mechanisms in place to evaluate the genuineness of the claimant. However, there should be periodic improvements to disaster management, and the reinforcement of internal controls is essential if fraud is to be prevented in the event of a future disaster. See ISSAI 5530 <http://www.issai.org/composite-280.htm>

Unrecorded aid is that received but not recorded in the recipient's books. This could be because of collection agencies which are unidentified, multiple accounts, failure by the authorities to make available information on aid management mechanisms and poor coordination among disaster management agencies.

***L. Damaged aid***

During transportation items donated in-kind or bought using financial aid can become damaged or obsolete and no longer meet required standards for distribution, because of inappropriate storage or inadequate human and organisational resources to manage them.

***M. Unequal aid distribution***

When individuals or groups are favoured in aid distribution at the expense of others, there is inequality which may result in disaster-related aid not reaching the population affected most acutely by disaster. For example, a particular region may receive more aid than another as a political favour.

***N. Environmental damage***

Many disasters cause damage to the environment and ecosystems. The process of rehabilitation and reconstruction may cause further damage and this may cause future disasters.

***O. Assets ownership***

Ownership of assets resulting from the rehabilitation and reconstruction phases must be carefully defined. This should include the legal right to occupy the assets and the obligations of owners in respect of their assets, such as the requirement to carry out subsequent maintenance.

***P. Double funding***

Following disasters, there can be multiple flows of financial aid from donors to recipients. Lack of transparency of these aid flows engenders the risk that aid organisations may receive aid funds from multiple sources (donors) for any one given project. There may be a risk of double funding and misuse.

***Q. Information flows***

In an immediate post-disaster situation the dissemination of clear and objective disaster information to the public and stakeholders is critically important to avoid misinterpretation or speculation. The timely receipt of feedback from the public and disaster relief agents on the ground to the government bodies implementing disaster aid is equally important. Two-way communication is essential.

**Table 2 Disaster-related aid activities and associated risk factors matrix**

Topic(s)	Risk(s)																
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1. Damage and needs assessment		X	X		X	X		X					X				X
2 Aid selection	X				X				X			X		X	X		
3 Aid collection			X		X					X	X	X				X	
4 Procurement	X			X	X	X	X	X	X	X	X			X		X	
5 Storage			X	X	X	X				X		X		X			
6 Distribution	X	X	X	X	X	X		X	X								X
7 Infrastructure building	X				X	X		X	X	X	X			X	X		
8 Reporting	X				X		X			X						X	X
9 Accountability			X							X	X					X	X

- |   |                       |   |                          |
|---|-----------------------|---|--------------------------|
| A | Delay                 | J | Financial statement risk |
| B | Unintended recipients | K | Unrecorded aid           |
| C | Undistributed aid     | L | Damaged aid              |
| D | Fiduciary controls    | M | Unequal aid distribution |
| E | Fraud and corruption  | N | Environmental damage     |
| F | Poor economy          | O | Assets ownership         |
| G | Inflation             | P | Double funding           |
| H | Inefficiency          | Q | Information flows        |
| I | Ineffectiveness       |   |                          |

## Part 3: Good practice and examples of auditing disaster-related aid

Part 3 of ISSAI 5520 is based on experiences of auditing disaster-related aid collected by WG AADA. The Working Group consulted widely with SAIs involved in auditing disaster-related aid and conducted two surveys and a parallel/coordinated audit.<sup>35</sup> This work was led by the SAI of Indonesia and covered ten topics.

Preparing the audit  
 Cooperation between auditors of disaster-related aid  
 Information and data gathering  
 Selection of audit topics  
 Types of audit  
 Financial auditing and disaster-related aid  
 Performance auditing and disaster-related aid  
 Compliance auditing and disaster-related aid  
 Reporting audits and disaster-related aid  
 Audit tools for disaster-related aid

Sections 8 to 17 refer to relevant guidance and include examples, referred to in the text itself and expanded upon in the appendices. The examples relate experiences provided by SAIs auditing disaster-related aid.

### 8 Preparing the audit

**8.1** Following a disaster, SAIs audit flows of disaster-related aid. The scope and objectives of each audit and the way in which it is planned and conducted depend on the mandate of the SAI and the regulatory framework within which it operates as well as on whether the SAI is auditing from the perspective of the donor or the recipient. The survey conducted by INTOSAI WG AADA revealed considerable differences between the approaches of SAIs to auditing disaster-related aid. This was often due to differences in the external audit model (the three most common models being the Auditor General model, the Court of Accounts (or Audit) model and the Board of Collegiate model).<sup>36</sup> Another factor was the type of audit SAIs were either required or authorised to conduct. For example, some SAIs are required to carry out a financial audit which allows them to express an opinion on “whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework”.<sup>37</sup> Other SAIs are required by national law to carry out audits of disaster-related aid, or specific areas of disaster-related expenditure, using audit

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<sup>35</sup> The parallel audit was led by the SAI of Indonesia. The other members were the SAIs of India, Pakistan and Turkey. See WG AADA final report.

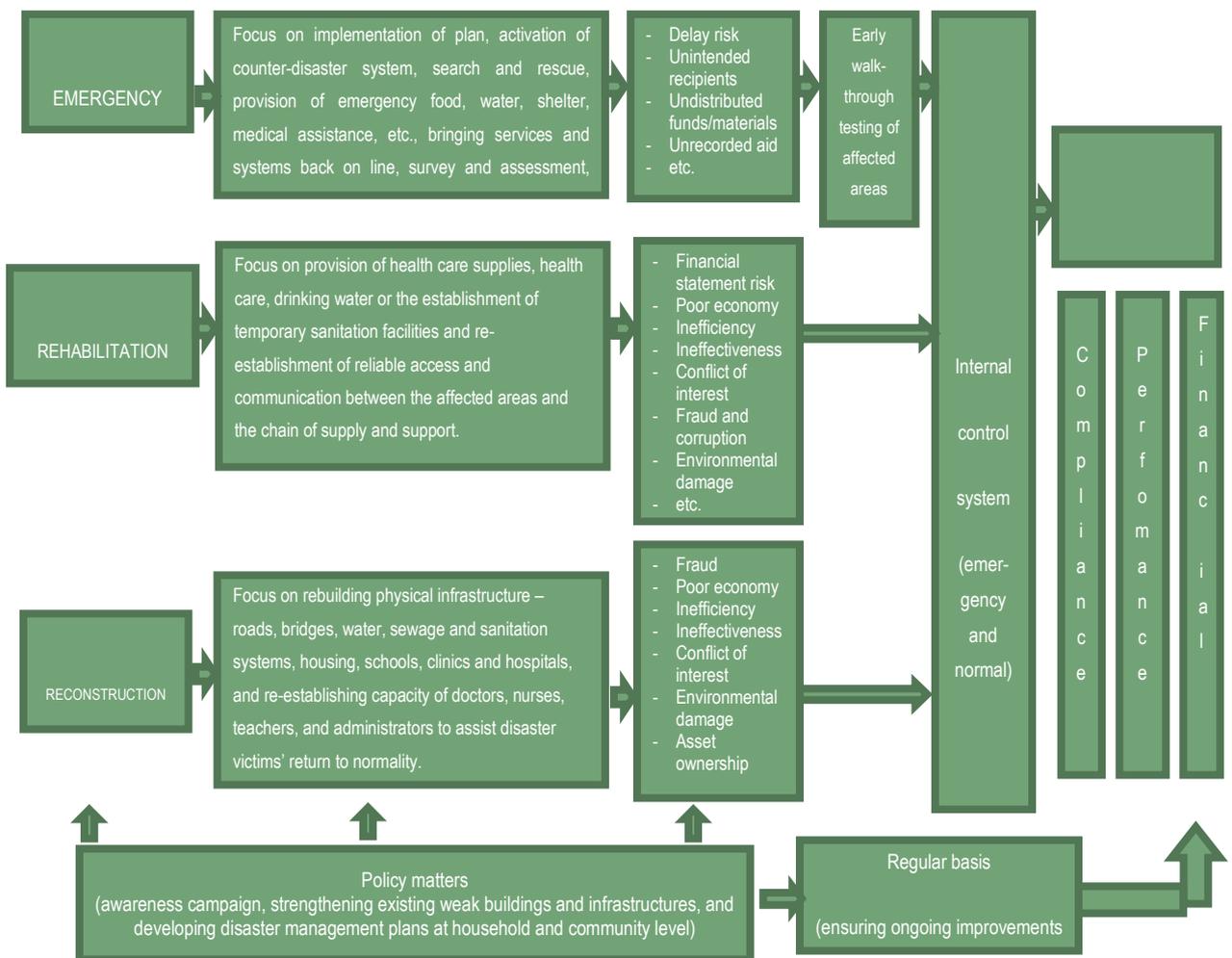
<sup>36</sup> ISSAI 1000/46-48

<sup>37</sup> ISSAI 1000/56

programmes addressing a number of audit objectives which may be financial, performance, compliance or a mixture of these. Clear objectives assist the auditors to focus the audit work and facilitate follow up of audit observations and recommendations

**8.2** Before embarking on an audit, SAIs should understand the processes for the management of disaster-related aid and the focus of each phase (recovery, relief, rehabilitation and reconstruction). They should assess the nature of the risks in each phase, familiarise themselves with the internal controls applied by each of the organisations responsible for managing disaster-related aid and test whether those internal controls are operating and are sufficient to overcome or reduce the risks. Figure 3 has been prepared by the SAI of Indonesia as an example of priority-setting and design of an audit of disaster-related aid.

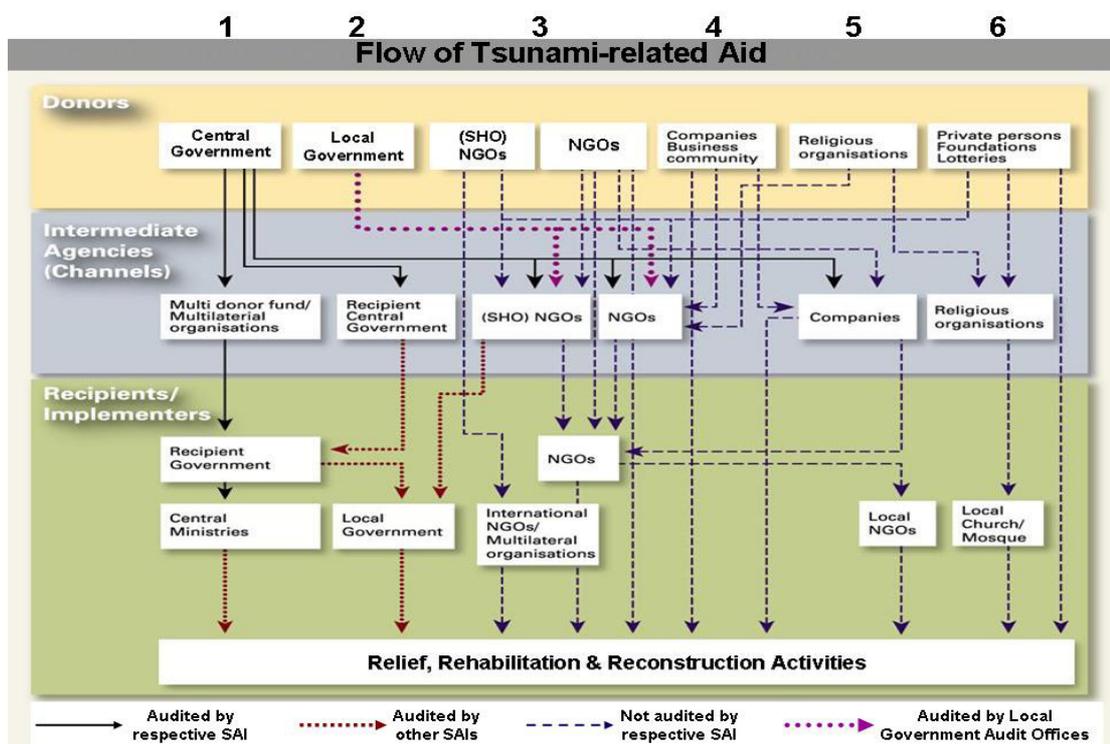
**Figure 3 Priority-setting and design for an audit of disaster-related aid**



## 9 Cooperation between auditors of disaster-related aid

9.1 The flow of disaster-related aid from donors to recipients and the corresponding flow of information from recipients to donors is complex. Figure 4 shows a donor's perspective (in this case, the Government of the Netherlands) of aid flows to victims of the tsunami that devastated large coastal areas in South-East Asia in December 2004. The high death-toll stimulated multiple donations of disaster-related aid which were often channelled through NGOs. The SAI of the Netherlands compared the accounts of 50 NGOs and found that they all used different reporting models. The auditors were not able to follow the aid from donors to final recipients.<sup>38</sup>

Figure 4: The flow of disaster-related aid: Indonesian tsunami case study



Source: The SAI of the Netherlands

9.2 Several different auditors may seek to audit aid flows as complex as those shown in figure 4: auditors of governments donating humanitarian aid, international agencies and governments receiving aid. There is often scope for cooperation between auditors which can involve carrying out joint, parallel or coordinated audits. For example, two or more SAIs of donor governments may seek to cooperate on auditing national contributions to a disaster-affected population, or donor and recipient government SAIs may find it to be of mutual advantage to coordinate their audits of aid provided

by the donor government for a specific disaster in the recipient country. This is especially the case when major disasters take place and many donors are involved in making significant donations. SAIs of donor governments can learn much from SAIs in recipient countries about the national legal and operational environment of auditing disaster-related aid and SAIs from recipient countries can learn about the international context of receiving disaster-related aid. The exchange of information and transfer of knowledge between SAIs in the context of disaster-related aid can be of mutual benefit.<sup>39</sup>

**9.3** The objectives of audit cooperation can be:

- sharing information and experiences;
- training auditors and clarifying terminology;
- overcoming problems of access rights;
- taking reliance from the work carried out by another auditor;
- enhanced transparency and accountability;
- developing and disseminating good practice.

**9.4** The conditions for cooperation should be set out clearly in an audit plan:

- the scope and objectives of the audit;
- which body is responsible for coordination;
- budget and audit tools available;
- reporting arrangements.

For more on cooperative audits, see the INTOSAI “Guide For Cooperative Audit Programs Between Supreme Audit Institutions”.<sup>40</sup>

## **10 Information and data gathering**

**10.1** The objectives of gathering information and data are as follows:

- to understand the government's response to the disaster;
- to identify potential weaknesses in the government's response – to be investigated further during the audit;
- to collect documentation on the legal and regularity framework and how entities are complying with that framework, as well as memoranda of understanding, agreements between the recipient government and donors and agreements with the various intermediaries;
- to document disaster-related aid flows and collect other relevant information which can be used to make choices regarding which approach to follow.

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<sup>39</sup> See WG AADA final report for more the WG AADA parallel/coordinated audit of disaster-related aid

<sup>40</sup>[http://cbc.courdescomptes.ma/index.php?id=20&tx\\_abdownloads\\_pi1\[action\]=getviewcategory&tx\\_abdownloads\\_pi1\[category\\_uid\]=29&tx\\_abdownloads\\_pi1\[cid\]=81&cHash=8526d20286](http://cbc.courdescomptes.ma/index.php?id=20&tx_abdownloads_pi1[action]=getviewcategory&tx_abdownloads_pi1[category_uid]=29&tx_abdownloads_pi1[cid]=81&cHash=8526d20286)

**10.2** When gathering information and data on disaster-related aid management, auditors should decide what information and data are needed and what role they will play during the assignment to achieve the audit objectives. To gather such data the auditor can:

- conduct physical observations in the disaster zone, making extensive use of photos and videos. Such recorded evidence can then later be compared to physical documents and witness reports to corroborate findings;
- interview the intended beneficiaries of disaster-related aid;
- identify the roles and responsibilities of staff in the organisations responsible for handling disaster-related aid;
- obtain key information about the aid (donors, recipients, collection, distribution, storage, aid conditions, registration, etc.);
- identify the activities performed by the organisations responsible for handling disaster-related aid; and
- identify the relevant internal control systems and procedures.

**10.3** SAIs recognise the importance of technical audits and on-the-spot physical inspections in disaster-related aid audits. Some SAIs send auditors to the site of a disaster at a very early stage to gather information. Appendices 6 and 7 provide examples of this. Such an approach can be of benefit because auditors gain a first-hand understanding of the situation and can collect evidence including by interviewing the affected population. Their presence should not disrupt relief operations but may allow them to both make timely and constructive recommendations and to act as a deterrent to potential perpetrators of fraud and corruption. The mandates of other SAIs preclude such an approach, for example the SAI of India. Other sources of information which can be gathered include official government sources, the websites of international humanitarian organisations such as real time evaluation data provided by UN OCHA and online crowd sources, such as Google Earth, Maps, OpenStreetMaps and Ushahidi.

**10.4** The information and data gathered during the emergency phase may concern:

- the rescue and evacuation of disaster victims;
- the response to victims' basic needs;
- aid selection, collection, storage and distribution;
- control procedures/activities during the emergency phase (including authorisations, separation of duties among disaster management agencies, etc.);
- accounting for disaster-related aid (for example how in-kind donations are valued, quantified, and recorded);
- controls over goods received and distributed including reconciliation between the records of the different organisations involved;
- the effectiveness of information, communication and coordination among those responsible for disaster-related aid management, victims, and other parties concerned with the collection and distribution of aid (donors, aid collection agencies, NGOs, etc.);
- damage and loss assessment;
- the validity of data held by disaster management agencies on the disaster victims (including criteria and the agencies' verification of victims);
- the executive agencies' preparation of victim and loss data; and

- monitoring carried out by the coordinator of disaster management activities.

**10.5** The information and supporting data obtained, including positive and negative aspects of disaster management and the management of disaster-related aid should be documented appropriately. This is important since not all information and data obtained is followed up during the audit. Auditors may also use the data and information as preliminary documents for the purpose of audit planning.

## 11 Selection of audit topics

**11.1** The scope and extent of SAIs' financial audit is often defined in national legislation and in SAIs' mandates. Performance and compliance auditing, on the other hand, usually involves a choice of audit topics. SAIs can use strategic plans to direct such audits towards areas where an external, independent audit may add value. The selection of topics for performance and compliance audit should be made by the SAI without outside pressure. However, SAIs can decide to audit topics requested or proposed by government or parliament.<sup>41</sup>

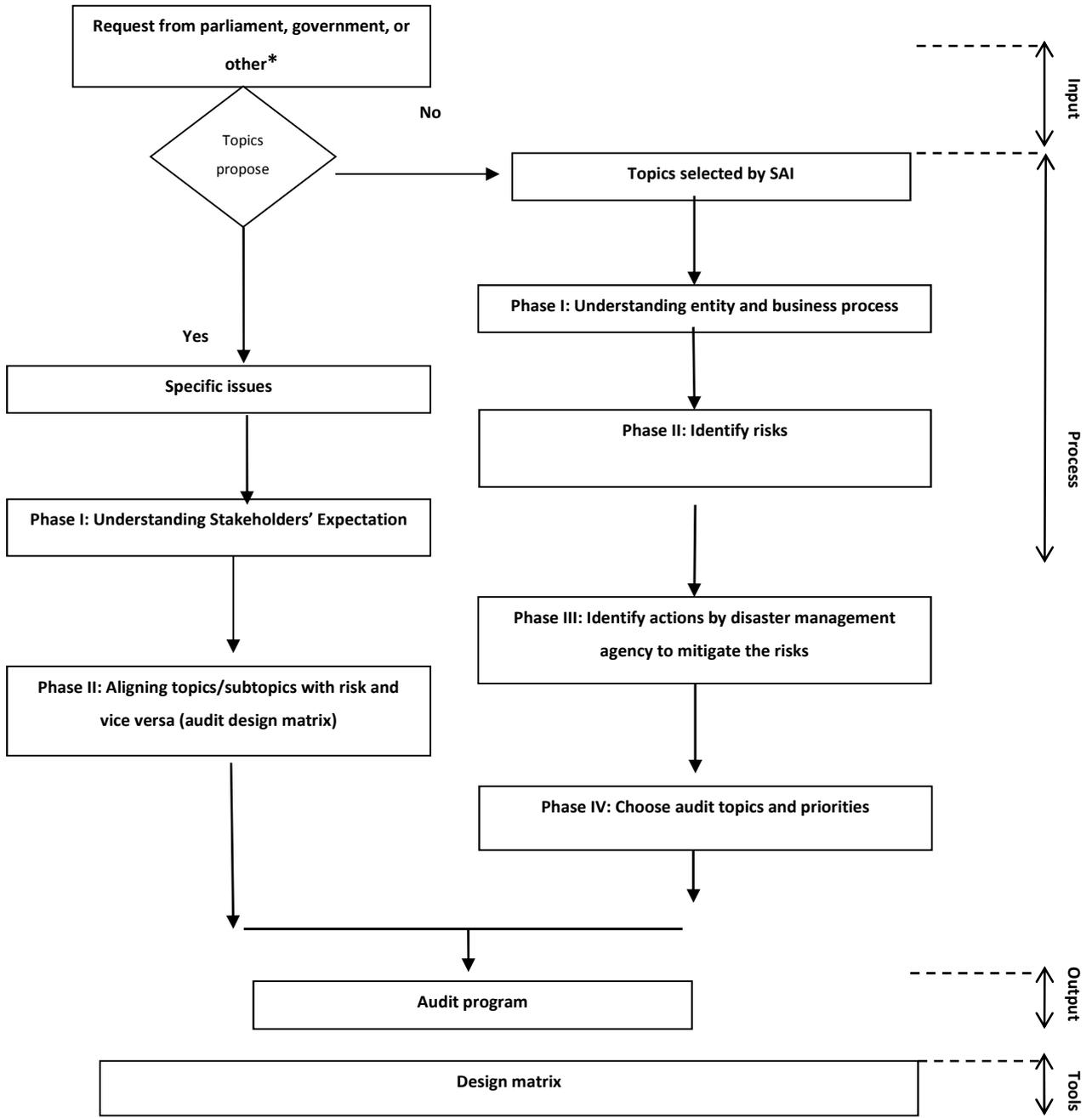
**11.2** The selection of topics should take account of the need to prioritise resources, capacity, budget and time. This involves planning and scoping an audit to help appropriately focus resources on addressing overall risk and to direct auditors in the field work and reporting stages. Figure 5 shows an example of the process auditors may follow to select topics for performance or compliance audits of disaster-related aid.<sup>42</sup> The procedure for selection of audit topics is described in paragraph 11.3.

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<sup>41</sup> See ISSAI 3000/44

<sup>42</sup> See also ISSAI 1315 on a risk based approach to financial audit

**Figure 5: Selecting topics for performance or compliance audits of disaster-related aid**



\* (This will vary according to the SAI's mandate)

Source: The SAI of Indonesia

### 11.3 Procedure for selection of audit topics

Auditors familiarise themselves with disaster-related aid policies, measures and activities. To begin with they can list all potential areas for audits. This list is likely to be long and choices have to be made based on established selection criteria including risk analysis.

#### **Phase I: Understand entities and processes**

Auditors need to understand the entities involved and the processes for managing disaster-related aid. This can be done by collecting information on key players, documenting disaster-related aid flows, identifying the internal control systems in operation and examining the role and responsibility of management. Documentation of previous disaster-related aid flows should also be consulted.

#### **Phase II: Establish selection criteria**

To allow them to explain the process of selecting topics for audit and the selection of topics itself auditors should establish and document in advance clear criteria for the selection of topics. For each area of disaster-related aid, these may include:

- the extent to which the audit will contribute to improving management or aid delivery;
- the knowledge that problems which require resolution exist;
- the added value that the audit can provide;
- the result of the risk analysis.

#### **Phase III: Risk Analysis**

The result of the risk analysis is a key selection criterion. The analysis of disaster-related aid can be complex and comprehensive data may not be available. In carrying out a risk analysis, auditors may need to consult external sources, such as studies done by NGOs, interviews with relevant officials and representatives, donor websites, media reports and other sources such as academic papers. For specific risks related to fraud and corruption, see ISSAI 5530. Factors which may indicate high risk in areas of disaster-related aid are:

- high financial or budgetary value;
- area already known to be risky or reported by civil society organisations or in the media as such;
- previously unaudited (the first time this type of disaster has occurred) or especially urgent (rapid onset) disaster;
- lack of information on prevention and mitigation activities (inadequate disaster preparedness measures in place).

Table 3 below shows some of the risks faced by key players in disaster-related aid and the characteristics that should be considered in managing the those risks. (Refer to table 2 in part 2 of this ISSAI).

Table 3: Risks faced by key players in disaster-related aid

Risks	Characteristics to consider	Key players
<ul style="list-style-type: none"> <li>• Delay</li> <li>• Unintended recipients</li> <li>• Undistributed aid (material and financial)</li> <li>• Fraud and corruption</li> <li>• Poor economy</li> <li>• Inefficiency</li> <li>• Ineffectiveness</li> <li>• Environmental damage</li> <li>• Financial statement risk</li> <li>• Unrecorded aid</li> <li>• Damaged aid</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>• Nature of disaster management phase               <ul style="list-style-type: none"> <li>- Emergency response</li> <li>- Rehabilitation and reconstruction phase</li> </ul> </li> <li>• Nature of disaster               <ul style="list-style-type: none"> <li>- Routine</li> <li>- Massive</li> <li>- Complex</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Disaster management agency</li> <li>• Relevant government institutions</li> <li>• NGOs implementing aid</li> <li>• Affected population</li> </ul>

Source: SAI of Indonesia

#### **Phase IV: Identify and evaluate actions by disaster management to mitigate risks**

The entity responsible for managing the disaster-related aid may have already taken action to resolve the risks identified. Auditors can assess whether the action taken by the management agency and other key players is adequate to compensate for the risks identified. This can be done by reviewing legal regulations, government policies and instruments and standard operating procedures, and by interviewing key players, such as relevant staff and senior officials at the managing entity, as well as officers in the field. Auditors may consider carrying out sample checks of whether the systems and procedures are sufficiently effective and reliable.

Table 4 below provides some examples of action taken by disaster managers to address risks identified in disaster-related aid.

Table 4 Examples of action taken by disaster managers to address risks

Risks	How
<ul style="list-style-type: none"> <li>• Delay</li> <li>• Unintended recipients</li> <li>• Undistributed aid (material and financial)</li> <li>• Fraud and corruption</li> <li>• Poor economy</li> <li>• Inefficiency</li> <li>• Ineffectiveness</li> <li>• Environmental damage</li> <li>• Financial statement risk</li> <li>• Unrecorded aid</li> <li>• Damaged aid</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>• Improve existing policies and procedures</li> <li>• Modify existing or enact new legislation</li> <li>• Conduct needs assessment</li> <li>• Establish Memorandum of Understanding or contract</li> </ul>

Source: SAI of Indonesia

### **Phase V: Prioritisation of topics**

Possessed of a good knowledge of the entity, using effective selection criteria and following a comprehensive risk analysis, auditors are in a position to select topics to propose for audit. Auditors making the final selection require adequate skills, training and experience and need to exercise professional judgment. The list of potential audit topics selected can be prioritised appropriately with a view to the efficient and effective use of resources and time, potential audit impact, financial materiality, the risk to good management, complexity, significance, visibility, coverage and multi-sector relevance. The selection should be documented and reviewed by the hierarchy.

For guidance on selection of topics for performance audits see ISSAI 3000.<sup>43</sup>

## **11.4 Audit topics proposed to the SAI**

Depending on the mandate of the SAI and its relationship with parliament, government, or other stakeholders, topics for audit may be proposed to or selected for the SAI. It is important for the auditors to understand the reasons for the proposal and stakeholders' expectations of the audit. The SAI should reformulate the stakeholders' proposals as audit topics with audit objectives and determine the associated risks. Stakeholder proposals are

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<sup>43</sup> ISSAI 3000/43-46 <http://www.issai.org/composite-344.htm>

sometimes described in terms of areas of risk rather than areas of interest. Appendix 2 shows the risk-based strategy used by the SAI of Indonesia in auditing the management of disaster-related aid.

For the subsequent stages of the audit, auditors are referred to the stages in the design matrix in Appendix 3. The audit design matrix can assist auditors to define audit objectives, researchable questions, audit criteria, audit evidence, sources of audit evidence, methods of obtaining audit evidence and check the reliability of that evidence, the limitations that auditors might face and the audit findings.

## 12 Types of audit

- 12.1** SAIs can carry out financial, performance or compliance audits of disaster-related aid. In all cases the audits should fall within the mandate given to the SAI and be carried out in accordance with the national and other relevant legislation and auditing standards which apply. Reference should be made to which standards have been complied with (International Standards on Auditing (ISAs), ISSAIs<sup>44</sup> and/or other national and relevant auditing standards) and whether compliance with such standards is total or partial. ISSAI 1000 provides guidance on this.<sup>45</sup>
- 12.2** Much of disaster-related aid comes from or is received into the budgets of national governments and is subject to periodic audit in this context (usually annual financial audit). Where there is no statutory requirement to carry out an audit of disaster-related aid or when any type of disaster-related aid is excluded from their mandates, SAIs may consider recommending to government to amend or enact the necessary legislation.
- 12.3** An audit of disaster-related aid may include aspects of financial, performance and compliance auditing. However, the objectives of these different types of audit are not the same and should be stated clearly and separately. Financial audit focuses on reports and accounts, compliance audit is concerned with the respect of legislation, policy or agreed upon terms and performance audit addresses the economy, efficiency and effectiveness of government undertakings, systems, programmes or operations. Each type of audit should be completed in accordance with applicable standards. The following are the relevant ISSAIs:

General Auditing Guidelines on Financial Audit	1000-1810
General Auditing Guidelines on Performance Audit	3000-3100
General Auditing Guidelines on Compliance Audit	4000-4200

Appendix 5 contains references to audits of disaster-related aid carried out by SAIs in recent years.

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<sup>44</sup> Notably level 3 INTOSAI Standards. See [http://www.issai.org/media\(1075,1033\)/Purpose\\_and\\_authority\\_of\\_the\\_INTOSAI's\\_professional\\_standards.pdf](http://www.issai.org/media(1075,1033)/Purpose_and_authority_of_the_INTOSAI's_professional_standards.pdf)

<sup>45</sup> ISSAI 1000/28

## 13 Financial audit and disaster-related aid

13.1 The purpose of an audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.<sup>46</sup> The definition of the scope of the audit depends on regulations, mandate and organisational structure of the SAI.<sup>47</sup>

13.2 When conducting a financial audit of disaster-related aid, auditors should take account of the specific nature of disaster-related aid. The audit of financial statements could address, among other things:<sup>48</sup>

- the requirements of the applicable accounting standards in the light of the special circumstances surrounding disasters (emergency procedures, large volumes of public expenditure during or after the emergency);
- the existence and operation of adequate internal control systems during the different post-disaster phases and activities (relief, recovery, rehabilitation and reconstruction);
- the increased risk of fraud and corruption in emergency activities;<sup>49</sup>
- whether the legislation regarding contracts provide for emergency provisions and whether this is appropriately reported in the financial statements;
- reconciling disaster-related aid budgeted for and accounted for;
- the possible existence of gaps in funding between executive units engaged in similar activities;
- reconciling donors' and recipients' records and reports;
- comparing project expenditure recorded by donors with figures for total aid.

Auditors should refer to ISSAIs 1000-2999 “Financial Audit Guidelines”.

13.3 Following disasters, especially major disasters, SAIs may find themselves facing challenging new situations. In some cases SAIs visit the site of the disaster as soon as possible to gather information or start the audit work. This was the case for the SAI of Peru after the 2007 earthquake in Pisco and for the SAI of China following the 2008 Wenchuan earthquake. The audit carried out by the SAI of Peru concentrated on emergency activities. The post-Wenchuan audit concentrated on recovery and

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<sup>46</sup> ISSAI 200/20

<sup>47</sup> See ISSAIs 100 and 1000/20 and 21

<sup>48</sup> See ISSAI 1300: Planning an audit of financial statements

<sup>49</sup> ISSAI 5530

reconstruction and was a real-time audit which lasted three years, i.e. virtually the whole of the reconstruction period. The main objectives of these post-disaster audits were financial but the audits included performance and compliance aspects. See Appendices 6 and 7 for summaries of these audits.

## 14 Performance audit and disaster-related aid

**14.1** Performance audits carried out by SAIs are independent, objective and reliable examinations of whether government's undertakings, programmes, systems or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements.<sup>50</sup> Auditors develop strategies that will help in setting priorities and audit topics and plan in such a way as to ensure that audits are of high quality and are carried out in an economic, efficient, effective and timely manner.

**14.2** Performance audits of disaster-related aid may examine whether due attention has been paid to:

- the economy with which the disaster-related aid was used. Auditors can test whether financial and in-kind aid were used to carry out activities in accordance with sound administrative principles and practices and management policies;
- the efficiency with which human, financial and other resources have been used. Auditors can seek to establish whether maximum output has been achieved from the disaster-related aid. Looking at questions of efficiency requires the examination of information systems, performance measures and monitoring arrangements and the procedures followed by audited entities for remedying deficiencies identified; and
- how effectively those responsible for managing and implementing disaster-related aid have performed in relation to the objectives set. To measure effectiveness, auditors have to compare the actual impact of activities with their intended impact.

Auditors should refer to ISSAIs 3000-3299 "Performance Audit Guidelines".

**14.3** A performance audit may seek answers to the following questions:<sup>51</sup>

- Trust – Has the aid pledged been provided? Has the aid pledged led to appropriate expenditure?
- Regularity – Has the aid been spent on the intended purposes?
- Efficiency – Has the aid been spent as efficiently as possible?
- Effectiveness – Has the aid been spent as effectively as possible?

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<sup>50</sup> ISSAI 300/2

<sup>51</sup> <http://www.intosajournal.org/technicalarticles/technicaloct06b.html>

**14.4** The following are some of the aspects which performance auditors may consider:

- Goals attainment: did the affected population receive the help it needed?
- Process: were procedures adequately prepared in advance and then respected during the post-disaster period?
- Cost/benefit: were the objectives of the disaster-related aid met at the lowest possible cost?
- Quality: was the quality of the output (food aid, shelters, etc) acceptable?

**14.5** When conducting a performance audit, SAIs should bear in mind the need to make recommendations to feed into measures to prepare for the event of future disasters. For example, in the field of infrastructure development, SAIs should ensure that the rebuilding of infrastructure is intended not only to replace damaged facilities, but also to reduce the impact of future disasters and create a resilient community. Another example is where auditors observe inadequate preventive, detective and reactive controls to deter, detect and follow-up on fraudulent and corrupt activities, they can propose that a fraud and corruption prevention strategy should be built into preparations for a future potential disaster.<sup>52</sup> SAIs may also seek to issue recommendations of general application regarding, for example, improvements to be made in human resources and organisational capacity development.

**14.6** Appendix 8 presents two performance audits conducted by the SAI of Japan. Following the Great East Japan Earthquake in 2011, the SAI of Japan reported on questions of economy and efficiency of recovery and reconstruction expenditure and found that emergency housing could have been supplied more economically and that disaster-generated waste was not being disposed of with adequate efficiency.

**14.7** Appendix 9 summarises a performance audit carried out by the SAI of the European Union of the European Commission's humanitarian response to the 2004 tsunami in South East Asia. Recommendations concerned the role the Commission could consider playing in helping affected governments to manage donor coordination more effectively, the need for better clarification of roles between Commission services, the necessity to improve monitoring and the availability of information and the importance of obtaining access to documentation on projects implemented by UN agencies.

**14.8** In the aftermath of the South East Asian tsunami, the SAI of India carried out a performance audit of national expenditure and international disaster-related aid across the disaster management cycle at national, state and district levels. The audit found the mechanisms for managing and monitoring aid to be inadequate and that there were no clear criteria for assessing expected financial assistance. The construction of both temporary shelters and permanent housing was found to be ineffective and there were

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<sup>52</sup> ISSAIs 5510 and 5530

delays in construction. The audit also covered financial and compliance audit objectives and revealed irregularities in aid payments, in the identification of beneficiaries and in the administration of infrastructure projects. See Appendix 10 for a summary of the audit.

**14.9** The United States of America (US) is one of the world's largest donors of disaster-related aid.<sup>53</sup> In 2005 Hurricane Katrina struck the Gulf coast of the US, causing billions of dollars in damage and dislocating thousands of residents. As the storm's devastation and destruction were viewed around the world, many countries offered both cash and in-kind donations, including military donations to the United States. Since the US government had not received such substantial amounts of international disaster assistance before, ad hoc procedures were developed to accept, receive and distribute the cash and in-kind assistance. The SAI of the US carried out a performance audit to determine the amount of cash that was donated by foreign countries and the extent to which it had been used to assist in the relief efforts. The audit also examined the extent to which those federal agencies with responsibilities for the assistance had policies and procedures in place to help ensure the appropriate accountability for the acceptance and distribution of in-kind donations, including military donations. Based on the findings of the audit, the SAI recommended improvements to the policies, procedures, planning and oversight relating to international donations. See Appendix 11.

## 15 Compliance audit and disaster-related aid

**15.1** The objective of compliance auditing is to enable SAIs to report to the appropriate bodies on audited entities' compliance with particular sets of criteria. This involves reporting on the degree to which the audited entities are accountable for their actions and exercise good public governance.<sup>54</sup> SAIs carrying out compliance audits should refer to the General Auditing Guidelines on Compliance Audit.<sup>55</sup>

**15.2** Compliance audit can be performed as a separate audit task. It can also be related to performance audit, or to the audit of financial statements. Some SAIs may have special compliance audit tasks and responsibilities established by their mandate or otherwise. Such tasks may include the judicial function of SAIs, activities related to suspected fraud and corruption, investigation of suspected illegal acts or other misconduct for the purpose of decisions on the sanctioning of individuals or reporting to law enforcement authorities, or the assessment of the truth and completeness of information submitted by ministers to a parliament.

**15.3** The INTOSAI Fundamental Auditing Principles highlight two key concepts of compliance auditing:

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<sup>53</sup> <http://www.ifrc.org/Docs/Appeals/statistic/donors12.pdf>.

<sup>54</sup> ISSAI 400/20

<sup>55</sup> ISSAIs 4000-4200

- Regularity – the concept that activities, transactions and information pertaining to an auditee are in accordance with the authorising legislation, regulations issued under governing legislation and other relevant laws, regulations and agreements, including budgetary laws, and that they are properly sanctioned.
- Propriety – the general principles governing sound public sector financial management and the conduct of public sector officials.

**15.4** When carrying out compliance audits of disaster-related aid auditors may seek to verify compliance with the requirements of international agreements covering recovery, relief, rehabilitation and reconstruction measures and activities. For example, governments are required by United General Assembly Resolutions 46/182 of 1991 and 58/114 of 2004 to adhere to the humanitarian principles of humanity, neutrality, impartiality and operational independence.<sup>56</sup> SAIs can report on failure by government to comply with these principles in the use of disaster-related aid.

**15.5** Auditors should be aware of emergency procedures which may be in operation during the emergency phase following disaster. It may not be possible to comply with all laws and regulations in emergency situations and auditors should take into account the need to circumvent some rules in exceptional circumstances to prioritise the saving of lives and the alleviation of human suffering. However, auditors should expect that, where it is reasonable, the deviations from rules should be documented and explained. Auditors should also verify and make recommendations regarding the degree to which appropriate disaster preparedness measures existed and whether they took into account the need for pre-defined emergency procedures.

**15.6** Appendix 12 presents two compliance audits carried out by the SAI of Indonesia in 2010 and 2009 respectively of emergency response, rehabilitation and reconstruction disaster-related aid activities. The audits included performance as well as compliance objectives. The auditors of the emergency response to an earthquake in 2010 found that disaster management regulations in the province concerned were not adequate, that the legal requirement to set up a local disaster management agency was not respected and that the construction of emergency infrastructure did not comply with legal requirements. The auditors of recovery and reconstruction expenditure (national expenditure together with international disaster-related aid) reported the failure to comply with national budget regulations and that local government had not complied with requirements on reporting disaster-related aid.

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<sup>56</sup> [http://ochanet.unocha.org/p/Documents/OOM\\_HumPrinciple\\_English.pdf](http://ochanet.unocha.org/p/Documents/OOM_HumPrinciple_English.pdf)

## 16 Reporting audits of disaster-related aid

**16.1** When preparing audit reports, SAIs should consider the specific context and needs of the country concerned, as well as legal mandates and any other information relevant to the stakeholders. Separate audit reports might be prepared for different parts of the post-disaster phase (emergency response, rehabilitation or reconstruction activities). These reports may have a similar overall structure, with their content depending on the phase concerned. In all cases, reports should be addressed to the appropriate authority for follow up on the recommendations made.

**16.2** Reports on financial audits of disaster-related aid should respect national requirements. SAIs should refer to the INTOSAI guidelines.<sup>57</sup> If the financial statements have been prepared in accordance with a special purpose framework, auditors should consider including an emphasis of matter paragraph in the report on the financial audit of disaster-related aid.<sup>58</sup>

**16.3** Following performance or compliance audits, auditors should provide written reports to communicate the results of the audit to all levels of government and other stakeholders. The fact that reports are written make the results less susceptible to misunderstanding, make the results available for public inspections and facilitate follow-up to determine whether corrective action has been taken.

**16.4** Performance audit reports should be reliable and informative. Recommendations should be logical and clear, and linked to the audit objectives and the findings. The auditors should report the audit objectives, scope, methodology and sources used, as well as audit findings, conclusions and recommendations. The audit reports should be complete, accurate, objective, convincing and as clear and concise as possible. See ISSAI 3000 for guidance.<sup>59</sup>

**16.5** Compliance audit reports should include the objectives and scope of the audit, the time period covered, identify or describe the subject matter and the criteria, the responsibilities of the various parties (legal basis), the auditing standards applied in performing the work, a summary of the work performed and a conclusion. See ISSAI 4100 for guidance.<sup>60</sup>

**16.6** INTOSAI has spearheaded an initiative called The Integrated Financial Accountability Framework (the IFAF) to improve the quality and availability of financial information on humanitarian aid.<sup>61</sup> The proposal is for all stakeholders in

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<sup>57</sup> ISSAI 1700 “Forming an Opinion and Reporting on Financial Statement.”

<sup>58</sup> ISSAI 1800: Special Considerations – Audits of Special Purpose Financial Statements

<sup>59</sup> [http://www.issai.org/media\(797,1033\)/ISSAI\\_4100\\_E\\_Endorsement\\_version\\_June.pdf](http://www.issai.org/media(797,1033)/ISSAI_4100_E_Endorsement_version_June.pdf)

<sup>60</sup> [http://www.issai.org/media\(797,1033\)/ISSAI\\_4100\\_E\\_Endorsement\\_version\\_June.pdf](http://www.issai.org/media(797,1033)/ISSAI_4100_E_Endorsement_version_June.pdf)

<sup>61</sup> <http://www.issai.org/composite-194.htm>

humanitarian aid to prepare IFAF tables , for these tables to be audited by external auditors and for them to be made publically available by publishing them as open data. The objective of the IFAF is to standardise and simplify humanitarian aid reporting, improve transparency and accountability and make ex-post, final, audited financial information on the whole of humanitarian aid available to all interested parties. Once the IFAF is operational, SAIs can use the improved information to support their work on auditing financial statements and to assist them in their performance and compliance audits. For more information see INTOSAI GOV 9250 on the IFAF.<sup>62</sup>

## 17 Audit tools for disaster-related aid

**17.1** The complexity of auditing disaster related-aid makes the use of audit tools a necessity for SAI auditors. However, before using the tools, auditors should obtain assurance regarding the quality and reliability of the information on which they are based. Some of these tools are described below.

**17.2** Governments use **Geographic Information Systems (GIS)** as a source of information. These can be used to integrate, store, analyse, manage and present data that are linked to locations. GIS technology can be used to assess where hazardous natural phenomena are likely to occur. In a disaster-related aid audit, GIS can be used to identify the area(s) affected by the disaster to be audited. GIS is useful both in planning and in conducting the audit. For further discussion of GIS and how it can be used for auditing disaster-related aid, see ISSAI 5540.<sup>63</sup>

**17.3 Online databases** can be useful for SAI auditors where many stakeholders are involved in disaster-management. Some examples of online databases used in auditing tsunami related aid in Indonesia are RAN-DTF, ETS, FTS, and the United Nations' Relief website. Due to the important role these databases play in disaster management, auditors should also assess the quality of these databases and the information they contain. SAIs are referred to the final report of the INTOSAI Task Force of the Accountability for and Audit of Disaster-related Aid<sup>64</sup> for criteria for assessing the quality of online databases for disaster management and specifically for disaster-related aid.

The Task Force considered that databases for disaster-related aid should contain:

- complete, reliable, timely and *comparable* data;

<sup>62</sup> ibid

<sup>63</sup> <http://www.issai.org/composite-280.htm>

<sup>64</sup> Task Force on the Accountability for and Audit of Disaster-related Aid (2008), Lessons on accountability, transparency and audit of Tsunami-related aid. See website: <http://eca.europa.eu/portal/page/portal/intosai-aada/home>.

- information on the reliability and timeliness of the data: Has the information been verified or audited? When was the information collected?
- data over the whole *period* of relief, rehabilitation and reconstruction.

**17.4** INTOSAI GOV 9250 on the IFAF (see paragraph 16.6) includes the proposal that **IFAF tables** should be made available as open data. The audited information published in IFAF tables can be used as a tool for auditors seeking to construct global audit trails for individual disasters or specific aid flows. IFAF tables can also be used by auditors seeking to establish coverage by other auditors of the humanitarian aid in which they are interested and as such can become tools to further collaboration and cooperation between auditors.<sup>65</sup>

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<sup>65</sup> <http://www.issai.org/composite-194.htm>