ISSAI 5530

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INTOSAI

Adapting Audit Procedures to Take Account of the Increased Risk of Fraud and Corruption in the Emergency Phase following a Disaster

INTOSAI Professional Standards Committee

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Table of Content

Part 1: Background, scope and definitions

Part 2: Auditing the increased risk of fraud and corruption

Part 3: Risks and red flags

Part 4: Adapting audit procedures

<u>Annexes</u>

Part 1: Background, scope and definitions

1. Background

1.1. The number and scale of disasters are rising.

- The UN's Office for the Coordination of Humanitarian Affairs (UN OCHA) estimates that the number of disasters recorded annually has doubled over the past two decades.[1]
- The number of people affected by disasters has tripled since 1980 and is expected to reach an annual average of 375 million by 2015.[2]
- According to the United Nations Development Programme (UNDP), three-quarters of the world's population live in areas affected at least once by earthquake, tropical cyclone, flood or drought between 1980 and 2000.[3]

1.2. Citing a variety of reasons, climatic and demographic studies predict that the rise in the rate of disaster occurrence is here to stay.

- The growing world population must be housed and this often results in decisions by governments to permit construction in disaster-prone locations, exacerbating the impact of earthquakes, volcanic eruptions and tsunamis.
- The scramble after scarce natural resources and the results of pollution can have local or far-reaching effects on climate, producing landslides, flooding and fires.
- Armed conflict has increasingly tragic consequences in regions of the world which are already afflicted by famine.
- Nuclear accidents and terrorist attacks can potentially result in huge loss of life and wealth.

1.3. Managing disaster-related aid—both within and between countries—brings its own requirements, risks and challenges for governments, aid organisations and auditors. Taxpayers, parliaments and civil society are concerned about the risks of fraud and corruption associated with disaster-related aid, which result in the diversion of life-saving resources from vulnerable people. The issue of how SAIs address the risks of fraud and corruption has become one of increasing importance. In the 1998 Uruguay Accords, INTOSAI members agreed to "focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators" and to "intensify the exchange of experiences on fraud and corruption with other SAIs."[4] The fight against corruption is one of INTOSAI's five strategic priorities in the 2011-2016 strategic plan: "INTOSAI must lead by example in the fight against

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[1] http://www.emdat.be/natural-disasters-trends
[2] http://archive.transparency.org/publications/gcr/gcr_climate_change2 p 288
[3] http://www.un.org/special-rep/ohrlls/ldc/Global-Reports/UNDP%20Reducing%20Disaster%20Risk.pdf
[4] http://9iacc.org/papers/day4/ws2/d4ws2_mborge.html

corruption and is fulfilling its responsibility to ensure transparency and prevention through several activities and measures."[5]

2. Purpose, scope and structure

2.1. When auditing disaster-related aid, SAIs are faced with new and acute risks of fraud and corruption and with the task of adapting their audit procedures accordingly. This is especially so in the emergency phase following disaster, when urgency and the rapid arrival of large volumes of aid may weaken the effectiveness of controls which would normally be in place. The purpose of ISSAI 5530 is to:

- define terms and the role of SAIs (**part 1**);
- guide auditors towards the guidance available and the challenges raised by the risk of fraud and corruption in disaster-related aid (**part 2**);
- bring together and illustrate the relevant risks and indicators of fraud and corruption in the emergency phase following a disaster (**part 3**) and
- propose ways in which auditors may consider adapting procedures to take account of the increased risks (**part 4**).

2.2. Given the enormous amount of information widely available on the subject, ISSAI 5530 is not intended to be definitive or comprehensive, but rather to explain and illustrate the issues and to present practical solutions in a way that is useful for SAI auditors. ISSAI 5530 is not compulsory for SAIs and should not be used as standalone guidance. It can be used to supplement the level three and level four ISSAIs and notably ISSAI 1240 on "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements". These are published by INTOSAI and available on the website of the Professional Standards Committee.[6] The additional guidance provided in ISSAI 5530 is intended to supplement and not replace international auditing standards and SAI audit manuals and can be used by SAIs as best befits their mandates, practices and the disaster situations at hand.

2.3. Part 3 of ISSAI 5530 contains illustrated examples of the risks of fraud and corruption and associated red flag indicators of those risks. The lists in this part of the ISSAI can be of practical use in planning and executing the audit. They are not exhaustive and can be added to by auditors as appropriate.[7] Part 4 works through the financial audit process and proposes ways in which procedures can be adapted to take account of the increased risk of fraud and corruption. However, ISSAI 5530 is not restricted to financial audit. The additional guidance, examples and good practice provided are intended for financial, performance and compliance audit

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[5] http://www.intosai.org/uploads/intosaispenglishv9web.pdf p5 The issue is addressed at all levels of INTOSAI and at symposiums held jointly with the UN, the OECD and the World Bank. INCOSAI in 1998 was dedicated to examining the role of SAIs in combating corruption.[5] The 20th UN/INTOSAI Symposium on Government Audit held in 2009was dedicated entirely to INTOSAI's role in the international anti-corruption network.

[6] http://www.issai.org/composite-192.htm

[7] ISSAI 5530 would be enriched if the lists could be updated and new examples added when it is reviewed.

approaches. Given that fraud and corruption may also involve activities which do not have an identifiable or significant impact on the financial statements, auditors may wish to consider the use of two or more approaches when integrating fraud and corruption issues into audits of disaster-related aid.[8]

2.4. The mandates of some SAIs include fraud investigation. These SAIs often have dedicated units staffed by experts with the appropriate training. In most cases, however, SAIs do not lead investigations but rather cooperate with or work alongside investigative authorities. In other cases, investigative authorities may ask the SAI to carry out no further audit work in the area in which there is a suspicion of fraud or corruption so as not to jeopardise the findings of the investigation team. Fraud and corruption investigations are often carried out by the appropriate body (SAI or other) at the request of the judiciary once the suspicion of fraud and corruption has already been raised. Such investigations actively seek out deception and are not complete until sufficient evidence on the extent of the problem has been gathered.

2.5. The 5500 series of ISSAIs on disaster-related aid focuses on natural disasters such as earthquakes, tsunamis, landslides and flooding, although the guidance and good practice cited can in most cases equally be applied to disasters which are man-made, or the consequence of a mixture of natural and man-made causes. Equally, while most disaster-related aid is humanitarian aid, much of this guidance can be used during audits of non-humanitarian disaster-related aid (for example, aid to relieve the impact on wildlife following environmental disasters). Similarly, the risks and red flags in part 3 do not exclusively indicate fraud and corruption, but may indicate other control weaknesses, such as waste and inefficiency. Finally, ISSAI 5530 has been prepared for SAIs but can equally be used by other auditors or stakeholders.

3. Definition of terms

3.1 The UN defines **disaster** as "a serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources"[9] and **disaster-related aid** as aid provided to help people, who are victims of a natural disaster or conflict, meet their basic needs and rights.[10]

3.2 Disaster management can be depicted as a cycle with pre and post-disaster activities. Figure 1 shows how the different activities of disaster management fit into the disaster management cycle. The emergency phase of the cycle is that immediately after the occurrence of disaster. **Emergency phase activities** include recovery and relief activities, national and international
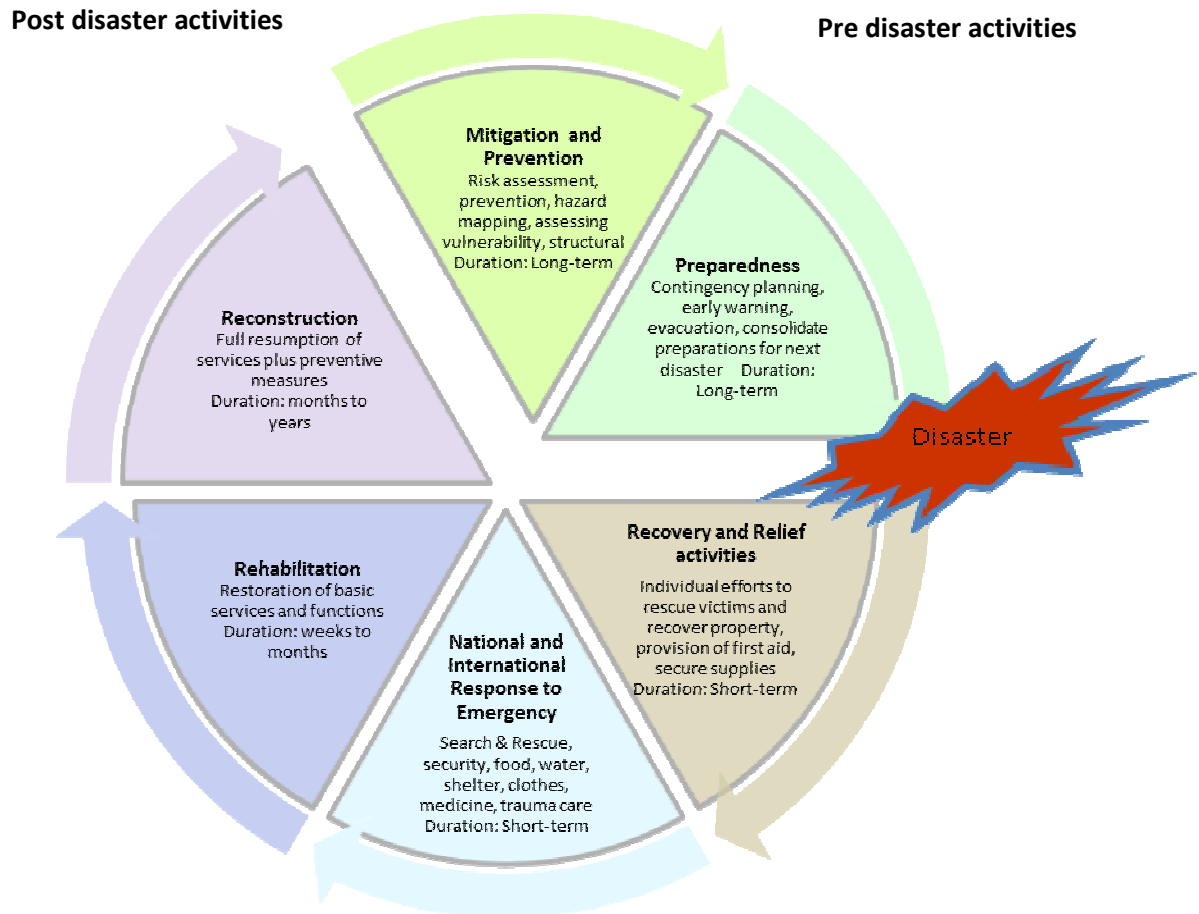
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[8] See ISA 320 on Materiality in Planning and Performing an Audit and ISA 240 on The Auditor's Responsibility to consider fraud in an audit of financial statements

[9] http://www.unisdr.org/files/7817_UNISDRTerminologyEnglish.pdf

[10] http://fts.unocha.org/exception-docs/aboutfts/fts_criteria_for_posting_contributions.pdf

response to emergency and initial, urgent rehabilitation measures. Disaster-related aid may be fraudulently or corruptly diverted during the whole of the disaster management cycle. However, it is on the specific risks which arise during the emergency phase that ISSAI 5530 focuses.

Figure 1: The Disaster Management Cycle

Source: Prepared for WG AADA by the SAI of Indonesia

3.3 What is specific to the **emergency phase following a disaster** is the urgency of the action taken. The initial response, particularly to natural disasters, is usually led by both government (including the military) and civil society actors at the local and national levels of the affected country. When local and national capacities are overwhelmed, appeals for international assistance are made. Disaster-related aid can originate from local, regional, national and international sources and can come out of private, corporate and public purses.

Aid may be managed and disbursed by government departments, national, regional or local authorities or agencies and NGOs of all descriptions which are either set up specifically for the disaster or are pre-existing field offices of national and international NGOs.[11]

3.4   During the emergency phase, disaster-related aid is provided to meet the immediate needs of the victims and to ensure that losses are minimised. It is generally intended for:

- rescue and recovery (emergency services, rescue teams, finding missing people, identifying and treating or burying casualties);
- material relief assistance and services (shelter, water, medicines, sanitation);
- emergency food aid (obtaining, transporting and delivering essential supplies of food and water and setting up supplementary feeding programmes); and
- relief coordination, protection and support services (re-establishing basic logistics, infrastructure and communications).

3.5   The role of government differs depending on the nature and magnitude of the emergency. Emergencies differ in nature, ranging from natural disasters to war and in whether they are quick-onset (for example, earthquakes) or slow-onset (for example, droughts). In war and other complex situations the role for government may be reduced. In the aftermath of natural disasters there is usually a strong role for government, both in the countries affected by the disaster and for third countries when donating aid following the disaster. The government of the country in which the disaster takes place usually takes the lead role in the early hours and days following the disaster and other governments become involved in providing bilateral and multilateral aid as the scale and extent of the disaster become clear. The emergency phase may last only a few days or several months, depending on the nature and magnitude of the disaster and the extent to which the affected countries were prepared.

3.6   The large interjection of resources, scale-up of activities and need to deliver aid rapidly during the emergency phase puts pressure on weak or damaged institutions and on human resources. Disasters emphasise and accentuate pre-existing weaknesses within countries, such as inadequate internal control systems, weak or vulnerable political and legal systems or great humanitarian inequality. Furthermore, there may already be endemic corruption and fraudulent and corrupt activities may be seen as "normal business practices" within the disaster-affected country.

3.7   As the urgency of the emergency activities abates and the most pressing basic needs of the affected population are met, the focus of the disaster-related aid turns to rebuilding physical infrastructure and re-establishing doctors, nurses, teachers and administrators. In the

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[11]   See the overview of individuals and entities are involved in providing, coordinating, delivering and reporting disaster-related aid on the Global Humanitarian Assistance website.   http://www.globalhumanitarianassistance.org/data-guides/humanitarian-aid-network

"Reconstruction" phase of the disaster management cycle, there is a return to normal procedures, standard controls operate and many of the specific risks of fraud and corruption related to the emergency phase should diminish accordingly. However, many of the risks of fraud and corruption highlighted in ISSAI 5530 are common to the entire disaster-related aid cycle and—more broadly—to all development aid. [12] There is often considerable overlap between the different phases of the disaster management cycle and between aid that is disaster-related and development-related, especially when crises are long-running.

3.8 **Fraud** is "an intentional action by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage."[13] **Corruption** is "the abuse of entrusted power for private gain."[14] The United Nations Convention Against Corruption (UNCAC) does not define corruption, but it criminalises a broad range of corruption related offences.[15] ISSAI 5530 is concerned with the wrongdoing which results in disaster-related aid not reaching the affected population targeted in the way it was intended. This wrongdoing can be financial in nature (fraud, bribery, extortion, kickbacks, embezzlement, etc) or non-financial (corruption, nepotism, cronyism, the manipulation or diversion of aid to benefit non-target groups, abuse of a position of monopoly over natural resources, aid given in exchange for sexual favours, coercion of agency staff or the beneficiaries themselves to ignore the wrongdoing by the perpetrators, trading in influence, abuse of functions, etc). ISSAI 5530 employs the term "**Fraud and Corruption**" to cover all of this unfair and unjust behaviour.

3.9 The **perpetrators** of fraud and corruption can be:

- national or local government officials;
- international or local NGO staff (management or non-management);
- suppliers, contractors or transporters;
- local volunteer or paid helpers;
- local elites or well-connected members of the population;
- local or national politicians; and
- fake beneficiaries seeking to take advantage of the emergency situation.

3.10 The **victims** of fraud and corruption can include:

- the intended beneficiaries affected by the disaster;

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[12] For example, auditors should be aware of the risks 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 require careful examination by auditors. By way of illustration, see the New Zealand experience during reconstruction following the Christchurch earthquakes http://www.auditnz.govt.nz/who-we-are/scott-tobin-feature.
[13] ISA 240/11 in ISSAI 1240
[14] http://www.transparency.org/news_room/faq/corruption_faq
[15] http://www.unodc.org/unodc/en/treaties/CAC/index.html

- socially, economically, politically and culturally disadvantaged groups;
- potential suppliers, contractors or transporters;
- taxpayers (national or international);
- private donors (individual or corporate); and
- countries in which fraud and corruption take place, since their tarnished reputation may cause less aid to be donated in the event of future disasters.

4. A role for SAIs

4.1. As external auditors of public finances, SAIs are faced with the challenge of carrying out audits which take account of the risk of fraud and corruption. The role of SAIs in this respect depends on individual mandates. The following example shows that providing SAIs with appropriate powers can yield satisfying results.

Combating corruption in Indonesia[16]

In 2004, Indonesia was one of the world's most corrupt countries and ranked 137th in Transparency International's global corruption index. Following the introduction of extensive reforms from 2003 and the ratification of the United Nations Convention against Corruption in 2006[17], its ranking for 2011 was 100th. A major part of the reforms concerned the restoration of the independence and autonomy of the Audit Board as the SAI of Indonesia. In line with INTOSAI's Lima Declaration of 1977, the Audit Board enjoys independence in:

- *Auditing the whole of the public sector;*
- *Being funded directly from parliament;*
- *Determining its own organisation;*
- *Deciding its own audit programme and*
- *Selecting its own staff.*

Since the reforms, the Audit Board has come across 318 suspected cases of fraud and corruption. 64 of these have resulted in prosecutions, with 13 cases not yet tried. Hundreds of millions of USD are being recovered for the state. In one case alone, USD 100 million were found by the Audit Board to have been withdrawn in cash by staff of a major bank to bribe prosecutors to drop cases against former directors of the bank and to bribe legislators to influence their decisions on appointments to the Board of Governors of the bank.

Source: The Audit Board of the Republic of Indonesia

4.2. At INCOSAI in 1998, SAIs agreed "that SAIs can and should endeavour to create an environment that is unfavourable to fraud and corruption. As provided in the Lima Declaration

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[16] http://www.bpk.go.id/web/files/2009/02/corruption2009-vienna-11-13-feb-2009.pdf and
http://www.thejakartaglobe.com/home/bpk-reflects-on-8-years-of-graft-cases-and-some-eye-popping-numbers/509096

[17] Indonesia was under review in the first year of the first cycle of the Mechanism for the Review of the Implementation of the United Nations Convention against Corruption. Indonesia was reviewed by the United Kingdom and Uzbekistan. The findings of the review are available at
http://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/ImplementationReviewGroup/ExecutiveSummaries/V1187232e.pdf

adopted by INTOSAI in 1977, SAIs [....] should be independent and have adequate mandates that enable them to effectively contribute to the fight against fraud and corruption."[18] This is emphasised in INTOSAI's General Standards in Government Auditing , which state that it is important for auditors "to be alert for situations ....which could be indicative of fraud, improper or unlawful expenditure".[19]

4.3. SAIs can address the issue of fraud and corruption in disaster-related aid throughout the disaster management cycle. During the pre-disaster phase, SAIs can assess preparedness for the emergency phase following a disaster by auditing the National Integrity System (NIS) and contributing towards an anti-fraud and corruption strategy as part of disaster preparedness activity. Paragraphs 4.4 to 4.12 of this guidance examine ways in which SAIs can do this. Following disasters, SAIs can carry out timely, appropriate and well-prepared audits of disaster-related aid. SAI observations on suspected cases of fraud and corruption should be properly followed up and recommendations on systems and control weaknesses should feed into improvements in the anti-fraud and corruption strategy.

National Integrity System

4.4. The NIS comprises the principal governance institutions in a country that are responsible for the fight against fraud and corruption.[20] These institutions are also known as the pillars of the NIS and comprise the executive, legislature, judiciary, SAI, law enforcement agencies, the media, civil society and business. SAIs can audit whether the NIS functions as it should to prevent and deter fraud and corruption. For example, as SAIs are themselves one of the pillars of the NIS, SAIs can assess whether in law and in practice, the SAI:

- has been granted adequate independence and sufficient resources to operate effectively;
- has an appropriate mandate and practices to allow it to fulfil its role;
- enjoys sufficient access to the executive and the legislature to allow it to carry out its work programme and to report its results; and
- can ensure that its observations and recommendations are followed up on in an appropriate and timely manner.

4.5. SAIs can also ensure that a strong integrity framework is in place within their own organisations. Staff should be aware of the risk that they too may find themselves in compromising situations and they should know how to react. SAIs should have a code of ethics which staff are required to sign. They may also consider carrying out an integrity self-assessment using the INTOSAINT tool developed by INTOSAI.[21] In evaluating the overall NIS of a country, SAIs might recommend that integrity assessments are carried out as a means of

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18   http://9iacc.org/papers/day4/ws2/d4ws2_mborge.html
19   ISSAI 200/2.2.41
20   http://cism.my/upload/article/201106161156410.NIS_toolkit.pdf
21   http://www.courtofaudit.com/english/Publications/Topics/IntoSAINT/Basic_principles_of_IntoSAINT

preparing staff for the risks of fraud and corruption associated with disaster situations.

4.6. SAIs can point out that the extent to which fraud and corruption occur depends on the strength of the NIS. A good NIS includes good governance, with the right checks and balances, the existence of an effective anti-fraud and corruption strategy and the establishment and operation of a strong internal control system. The governance structure for disaster-related situations should be well-defined at central, regional and local level. A governance framework should be established and communicated and should cover accountability for outcomes, division of responsibilities, chain of commands, feedback mechanisms and information flows among various actors. SAIs should review the soundness of the governance framework and its operating effectiveness in audits of disaster-related aid. Where the NIS is weak, individuals may be exposed to incentives or pressures to commit fraud and corruption or may be presented with opportunities to allow and attitudes that rationalise such behaviour. An effective law enforcement system (including the capacity to investigate and to prosecute fraud and corruption) is also critical.

4.7. Even more critical to the detection and prevention of fraud and corruption is the political will of the executive to make public, follow up on and implement the recommendations and conclusions of SAIs on fraud and corruption.[22] In the absence of this, the capacity, effectiveness and reputation of SAIs are undermined. SAIs should pay particular attention that adequate follow-up is given to their observations and recommendations on fraud and corruption so that preventive measures are rapidly adopted. Such visibility has an important **deterrent effect**. The value of audits as a deterrent to potential perpetrators of fraud and corruption is illustrated by the conclusion of a recent field study carried out in Indonesia which showed that when the probability of audits increased, missing expenditures decreased by 8%.[23]

4.8. SAIs can benefit from working closely with civil society organisations which can help ensure that the media and the national parliament will take due account of audit findings and recommendations. SAIs can audit the implementation by their government of Article 13 of the United Nations Convention against Corruption. This article requests State Parties to promote the active participation of society in the prevention of and the fight against corruption.[24]

4.9. There should also be effective and culturally appropriate complaint mechanisms for staff and beneficiaries and adequate protection for whistle-blowers. Most cases of fraud and corruption are uncovered as a result of tip-offs, and 'hotlines' where fraud can be reported confidentially have proven particularly important, as in the following example.

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[22]   The importance of political will in fighting corruption has been continuously emphasised by the Conference of the States Parties to the United Nations Convention against Corruption. Moreover, all State parties have agreed to subject themselves to the Mechanism for the Review of Implementation of the United Nations Convention against Corruption, thus demonstrating their willingness to identify and act upon the challenges in implementation identified through the review process.

[23]   Indonesia KDP evaluation by National Bureau of Economic Research http://www.mendeley.com/research/monitoring-corruption-evidence-from-a-field-experiment-in-indonesia-1/

[24]   see http://www.ansa-eap.net/resources/thematic/piloting-participatory-audit/

> *Anonymous tip-offs received by the SAI of Israel*
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> *Two cases reported by the SAI of Israel in 2010 highlight the importance for the SAI of paying careful attention to tip-offs received. In the first case, an anonymous complaint led the SAI to audit a health fund which was found to suffer from long-term managerial failures at all levels of supervision and oversight. The observations resulted in prosecutions under the charges of bribery, fraud and breach of trust. In the second case, anonymous complaints received led to convictions and prison sentences for former high-level officials of the National Labour Union for theft, fraud and money laundering, as well as false registration of corporate documents.*
>
> *Source: Office of the Comptroller And Ombudsman of the State of Israel*

4.10. SAIs should publicise the fact that members of the public can communicate suspicions to them, for example through the SAI website. The SAI of the US explicitly invites members of the public to report possible cases of fraud. They have created a secure internet connection, FraudNet.[25] The SAI of the UK has issued a series of reports on fraud and is working closely with the National Fraud Authority. Members of the public are invited to voice concerns about the misuse of public money through a 'Whistleblower's Hotline' on the NAO's website.[26] The Norwegian SAI uses a web-based 'Tip-Channel' which was characterised in their 2011 peer review by other SAIs as "good practice", to be followed by other SAIs.[27] SAIs should take such communications seriously and where the resources or mandate to investigate tip-offs are not available, they should be passed on to the relevant investigative authority.

Anti-fraud and corruption strategy

4.11. In preparation for disasters, SAIs can also elucidate whether an anti-fraud and corruption strategy exists and if so, whether it covers all risks and whether it operates. If it does not exist, SAIs can contribute towards developing an appropriate strategy. The key objectives of an effective anti-fraud and corruption strategy are to establish and operate prevention, detection and response controls:

- **Prevention** controls are designed to reduce the risk of fraud and corruption occurring in the first place;
- **Detection** controls are designed to discover any fraud and corruption which may occur; and
- **Response** controls are to ensure corrective action is taken and the harm caused by the fraudulent and corrupt activity is remedied.

The following is an example of prevention controls being strengthened following the SAI's observations.

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[25]   http://www.gao.gov/fraudnet/fraudnet.htm/
[26]   http://www.nao.org.uk/about_us/contact_us/whistleblowing__concerns.aspx
[27]   http://www.riksrevisjonen.no/OmRiksrevisjonen/Publikasjoner/Documents/Peer%20review%202011.pdf   point 63

Suspected fraud in road construction leads to response and improved preventive controls

In the context of its 2007 financial audit, the SAI of the European Union examined the legality and regularity of European Union aid spent on the rehabilitation of a major road in Madagascar. The works were supervised on a daily basis by a contracted engineering firm. However, when the auditors measured the road themselves they found that the actual width of the road was significantly less than that used for the calculation of payments to the contractor for building the road. The case was brought to the attention of the European Anti-Fraud Office (OLAF) for full investigation. The SAI's finding led the European Commission to modify its procedures to require technical audits of works contracts to be carried out on a regular basis. In this example, response controls operated as they should and the result was that preventive controls were strengthened.

Source: European Court of Auditors

4.12. SAIs involved in auditing disaster preparedness activities can recommend the development or improvement of an anti-fraud and corruption strategy. It can carry out an assessment of the nature of the fraud and corruption risks, examine the adequacy of the controls already in place to mitigate these risks and where appropriate recommend improvements to them. This work can be used as a basis for developing controls specifically designed to prevent, detect and respond to identified risks in a manner consistent with the legal and regularity framework. For example, rapid response to disaster-related aid is critical to minimising damage, to promoting effective use of the aid and avoiding the risk of fraud and corruption. To deliver goods and services swiftly to the affected population, procurement processes must be well-defined and tested in advance.[28] Such recommendations should be communicated to those responsible for establishing the anti-fraud and corruption strategy. SAIs can then audit the design, implementation and operational effectiveness of the controls as part of their audit of disaster preparedness.[29]

4.13. SAIs can address the challenge of the risk of fraud and corruption in a variety of different ways:

- examine whether the disaster-preparedness of governments takes account of the increased risk of fraud and corruption;
- make a clear statement on the adequacy of internal controls in respect of preventing and detecting fraud and corruption;
- encourage the adoption of anti-fraud and anti-corruption strategies by governments and their implementation;
- check whether aid donors have in place on-line complaints and grievance mechanisms;[30]

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[28] See http://eca.europa.eu/portal/pls/portal/docs/1/15578738.PDF
[29] See ISSAI 5510 on Audit of Disaster Risk Reduction http://www.issai.org/composite-280.htm
[30] Large development Banks and other financial entities operate such mechanisms, see the World Bank http://www.cao-ombudsman.org/ and the Asian Development Bank http://compliance.adb.org/

- have a clear and well-publicised whistle-blower and complaints policy;
- adapt audit programmes, including extended audit procedures and testing to give the greatest chance possible of detecting fraud and corruption that has occurred;
- carry out technical audits and physical on-site inspections;
- conclude on whether the presence of fraud and corruption affects the opinion on the financial statements;
- test whether the expenditure of the funds in question complies with applicable legislation;
- examine whether due regard was paid to questions of economy, efficiency and effectiveness in spending the disaster-related aid;
- formulate recommendations regarding the prevention of fraud and corruption in future;[31]
- use their access to parliament to comment on the adequacy of the NIS and where appropriate recommend action, such as better implementation of the UN Convention Against Corruption;[32]
- seek ways of ensuring that action is taken on its recommendations through fostering strong links with parliament and the executive, making reports available on the SAI website and actively following up failure to act on SAI recommendations and
- set a good example to other areas of government by assessing the quality of their own integrity system, being transparent about the results of the assessment and making public the follow-up action.[33]

4.14. SAIs are well-positioned to play an important role in deterring, preventing and detecting fraud and corruption. As an example, SAIs in OECD Member States can audit their country's implementation of the OECD-DAC Principles for Donor Action on Anti-Corruption. These principles commit donor countries to support and strengthen the capacity of civil society for promoting and monitoring transparency and accountability in the fight against corruption. They also underline the need for OECD donors to undertake work in their own countries on areas such as repatriation of assets, money laundering and the ratification and implementation of the United Nations Convention against Corruption.[34]

4.15. Where SAIs in countries receiving disaster-related aid and SAIs in countries donating disaster-related aid audit the same funds or funds which are pooled to provide assistance to the affected population they can benefit from coordination of efforts. SAIs in recipient countries audit national funds as well as those provided by donor governments, international agencies, NGOs and private donors. SAIs in donor countries audit foreign aid payments which their governments make bilaterally to the governments of affected countries or to international organisations or NGOs. In all cases, the risks of increased fraud and corruption can be identified and information

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[31] The Handbook on Preventing Corruption in Humanitarian Organisations can provide help on this.
http://www.transparency.org/whatwedo/pub/handbook_of_good_practices_preventing_corruption_in_humanitarian_operations

[32] http://www.unodc.org/unodc/en/treaties/CAC/index.html This Convention was adopted by the UN General Assembly and entered into force on 14 December 2005. It can be used as a powerful legal instrument in the fight against fraud and corruption and has so far been ratified by 164 countries (December 2012).

[33] SAIs can also assess their own preparedness for disaster in examining whether they have a Business Continuity Plan and whether the plan is appropriate. INTOSAI's Capacity Building Committee has produced guidance in this area See
http://cbc.courdescomptes.ma/index.php

[34] see http://www.u4.no/publications/uncac-and-the-participation-of-ngos-in-the-fight-against-corruption/

can be exchanged. Recipient and donor country SAIs can thus benefit from sharing experiences and possibly carrying out joint, coordinated or parallel audits which focus on the risks of fraud and corruption. Exercises of this nature are facilitated by adhering to practices of making publically available transparent and harmonised financial information on aid. See INTOSAI GOV 9250 for more on this.[35]

4.16. SAIs can also engage in participatory auditing. The SAI of the Philippines, for example, carried out a value for money audit of road projects in close cooperation with a network of civil society organisations involved in anti-corruption work.[36] In another example, this time in Uganda, an anti-corruption study recommended that the Auditor General commence a regular process of announcing audits of public infrastructure projects to national and local communities and hold community-level town meetings to discuss audit findings upon completion of infrastructure projects. Results of the audits are announced in the media in the district concerned. The Office of the Auditor General has committed itself to conduct 3-4 audits involving this type of citizen participation.[37]

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[35]   INTOSAI GOV 9250: The Integrated Financial Accountability Framework (IFAF): guidance on improving information on financial flows of humanitarian aid
[36]   See http://www.ansa-eap.net/resources/thematic/piloting-participatory-audit/
[37]   See http://www.eprc.or.ug/pdf_files/corruptiontrends2011.pdf

Part 2: Auditing the increased risks of fraud and corruption

5. Audit guidance

5.1. The main reference for SAIs on the subject of fraud is ISSAI 1240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements". [38] This INTOSAI Practice Note provides supplementary guidance to ISA 240 for public sector auditing. SAIs should read the two standards together. ISA 240 focuses on "fraud that causes a material misstatement in the financial statements....resulting from fraudulent financial reporting and... misappropriation of assets" and states that the auditor has the requirement to express an opinion whether the Financial Statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. ISSAI 1240 adds that in the public sector context there are additional responsibilities on auditors and that the fraud risks relating to these additional responsibilities need to be considered. [39]

5.2. ISSAI 1240 adds "abuse" as a concept that involves a departure from the concept of propriety[40] and states that when there is an indication that abuse has occurred, public sector auditors should consider whether this could have a quantitative or qualitative effect on the financial statements. [41] ISSAI 5530 starts from the premise that while fraudulent actions tend to leave a trail, apart from where collusion is involved, other dishonest actions, such as corruption, may not have the same traceable effect on the financial statements, but may have the same consequences from the perspective of the beneficiary of humanitarian actions. ISSAI 1240 and ISA 240 provide clear instructions on how to audit the assessed risks of material misstatement due to fraud. ISSAI 5530 focuses on a broader range of wrongdoing that may not be quantifiable, but nonetheless occurs. Taking account of corruption as well as fraud (and the other wrongdoing defined in paragraph 3.8 of this ISSAI) in audit procedures is less well-developed in international auditing standards, in part because it is more difficult to define. Paragraphs 6.1 to 6.10 which follow explore issues for consideration by auditors seeking to address the risk of fraud and corruption in their audits. The focus is on disaster-related aid, but parallels can be drawn for audits of other areas.

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[38] See http://www.issai.org/media(734,1033)/ISSAI_1240_E_Endorsement.pdf
Other INTOSAI standards which address the responsibilities of auditors in relation to fraud and corruption in the public sector include ISSAIs 1000,1200,1210,4000 and 4200.
[39] ISSAI 1240/4
[40] ISSAI 1240/6
[41] ISSAI 1240/9

6. Issues for consideration

6.1. The sooner auditors can visit the location of a disaster, the better their understanding of the situation will be.[42] It may not be possible for SAIs to have auditors present during the **initial stages of an emergency**. The mandates of some SAIs, for example the Office of the Comptroller and Auditor General of India, actually preclude this. In some cases, however, auditors go on-the-spot as soon as the disaster has occurred. In all cases, auditors have to use whatever information they can obtain as well as their own experience and judgement to draw conclusions about the level of risk they are faced with in the audit. A major challenge for SAI auditors is to be able to recognise the different risks of fraud and corruption associated with the different stages of response to a disaster.

6.2. The level of risk of fraud and corruption in emergency situations is high. There are many inherent **risk factors** related to the external environment, planning process and systems, people and organisation and controls. Working together with civil society organisations can be of benefit to SAIs in this context because they can provide relevant information to which SAIs may not otherwise have access. Risk factors can be addressed while planning the audit or during its execution. SAI auditors should bear in mind, however, that despite the increased risk, it is not necessarily the case that more fraud and corruption occurs in emergency relief aid than in any other area of development aid. Any abuse that does occur, though, is particularly egregious because it can result in assistance donated to save lives and alleviate suffering not fulfilling its intended purpose.

6.3. Fraud and corruption are not usually discovered in the course of an audit following standard audit procedures because the perpetrator(s), alone or **in collusion** with others, attempt to conceal the fact that the fraud or corruption has occurred by altering documents or other evidence. Fraud and corruption become even more difficult to detect when staff in positions of responsibility (such as managers) are involved. Auditors should not rely on standard documents, should remain alert to what is going on around them and should go **beyond the paper trail** wherever practical and feasible and when they have any reason for doubt. The value of physical and on-site inspection is emphasised in this respect.

> *Collusion in physical checking of saw mills in Raipur, India*
>
> *Large bills submitted for physical verifications of saw mills in 2003 and 2004 were paid despite the fact that the work was never carried out. The fraud was not discovered before payment because although preventive controls were in place, they failed due to* **collusion** *between four groups of individual in the control system.*

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[42] See the examples in Appendices 6 and 7 of ISSAI 5520 on Disaster-related aid. The SAI of Peru was able to detect fraud and corruption taking place in the aftermath of the Pisco earthquake and thus make appropriate recommendations, because they went to the site of the disaster at an early stage. The SAI of China contributed to an anti-fraud and corruption strategy by getting involved on site in post-earthquake rehabilitation and reconstruction projects from their inception through to completion.

> *The Conservator of Forests commissioned the checks although in so doing the costs exceeded the amount the department was authorised to pay out. The forest guards responsible for attesting that the physical checks had taken place prepared forged vouchers which were approved by the Forest Ranger. Claims were submitted to and passed for payment by the Divisional Forest Officer, who was later promoted to the Conservator of Forests. Detective controls were in place (review of expenditure statements and registers) but were rarely carried out and auditors did not follow up on the indicators of fraud promptly. The fraud was eventually discovered by auditors investigating the payment of amounts which exceeded the daily limit for cheques.*
>
> *Source: The Office of the Comptroller and Auditor General of India*

6.4. As in other areas of audit, SAI auditors of emergency aid should exercise **professional scepticism,**[43] which requires an on-going questioning of whether the information and audit evidence received could conceal the existence of fraud or corruption. Unless the audit team has reason to believe the contrary, records and documents may be accepted as genuine. If conditions identified during the audit cause the authenticity or accuracy of documents or procedures to be of question, the audit team should investigate further.

> *Failure to detect fraud in stores despite observations of auditors in Kerala, India*
>
> *At Kerala Water Authority, there was inadequate verification of stores by the Stock Verification Unit and the Executive Engineers, in contravention of the procedures manual. Despite repeated observations by the auditors on the inadequate periodicity of the physical verification of stocks, no action was taken by management and no further work was carried out by the auditors. The situation was not rectified, the control weakness remained and fraudsters took advantage of this over a number of years. The fraud was finally revealed when a proper stock take was carried out in 2003 following a complaint made by a trade union.*
>
> *Source: The Office of the Comptroller and Auditor General of India*

6.5. The audit team should be aware that in the context of disaster-related aid, even individual acts of fraud and corruption detected that are of low financial value (e.g. the diversion of a small number of bags of rice) may have a material effect on the results of the audit. This may be because there are multiple such acts which, once accumulated, constitute a significant amount of fraud. More importantly, however, the act in itself may be considered **material by nature,**[44] both because needy individuals go without vital supplies as a consequence and also because of the illegality of the act. Detecting and reporting on cases of fraud and corruption can also be considered material in the **context** of reassuring donors that any misuse of their donations is being corrected. Another factor is reputational risk: reporting on cases of corruption of small value can encourage recipient countries to improve and ensure implementation of appropriate fraud and corruption prevention strategies. The following example from Uganda shows the consequences of revelations of corruption (high value impact in this case) for the reputation of a recipient government.

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[43] http://www.ifac.org/sites/default/files/downloads/a008-2010-iaasb-handbook-isa-200.pdf   A18-A22
[44] See ISA 320 on Materiality in Planning and Performing an Audit and ISA 240 on The Auditor's Responsibility to consider fraud in an audit of financial statements

> *Diversion of rehabilitation aid funds to private accounts[45]*
>
> *The Auditor General of Uganda was unable to conclude a statutory value-for-money audit of the use of donor funds by the Office of the Prime Minister due to absence of records. The Auditor General informed the government that his rights of access to information had been curtailed. At the same time negative publicity regarding mismanagement of funds in the same office came to light in the media. The Auditor General initiated a special investigation in addition to the on-going statutory audit which led to the discovery of the misappropriation. The special investigation report revealed some USD 15 million had been misappropriated by fraudulent transfers to various private bank accounts. As a result of the Auditor General's report, several donor countries suspended aid payments to the Ugandan Office of the Prime Minister pending the results of an independent enquiry.*
>
> *Source: « Special investigation report on the allegations of financial impropriety in the Office of the Prime Minister », Office of the Auditor General, Uganda, October 2012*

6.6. In planning, executing and reporting an audit, the SAI should make a clear distinction between deliberate fraud or corruption and **inefficiency, incompetence and waste**. The latter may have the same or a greater impact on the effectiveness of disaster-related aid and both should be highlighted.

6.7. The **risk assessment** carried out by the auditor when planning the audit takes on an added importance when there is an increased risk of fraud and corruption. Accordingly, in risk assessments carried out by SAI auditors planning audits of the emergency phase following a disaster, the nature and type of risk factors should be analysed and an understanding developed of where key vulnerabilities to fraud and corruption lie. This assessment allows the auditors to decide whether the planned audit procedures need to be modified or not.

6.8. An important tool for adapting audit procedures to take account of the increased risk of fraud and corruption is the use of indicators of potential problems or '**Red Flags.**' A red flag is a sign or a set of circumstances that are unusual in nature or vary from normal activity. It is a signal that something is out of the ordinary and may need to be investigated further. The following cases show examples of how red flags can be useful for auditors.

> *Physical inspection by auditors reveal red flags of fraud and corruption*
>
> *As part of its financial audit of the European Commission's 2011 accounts, the SAI of the European Union (EU) carried out a routine inspection of a machine presented for financing by EU aid. The documents relating to the purchase and claim for reimbursement revealed no problems, but when the auditors inspected the machine itself, they noted the following:*
>
> *The production plate on the machine had been moved and*
>
> - *The third digit of the serial number had been tampered with.*

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[45] http://thestory.ie/2012/11/13/that-ugandan-report-on-misappropriation-of-irish-aid/. and
http://www.oag.go.ug/index

> *Recognising these signs as red flags indicating the need for further investigation, the auditors contacted the importer of the machine and established that:*
> - *The serial number fixed onto the machine did not exist;*
> - *The number of the certificate of conformity presented to the auditors did not exist;*
> - *The production plate was not fixed in the way the importer would have fixed it;*
>
> *It transpired that the machine in question was an old machine which the claimant had bought second-hand and claimed as new for a far higher price. In accordance with EU rules, the case of suspected fraud has now been passed to the relevant investigative authority for follow-up.*
>
> *Source: The European Court of Auditors*

> *Payments to contractors on the basis of fictitious measurements in Tamil Nadu, India*
>
> *Auditors of the Office of the Comptroller and Auditor General of India found that 86% of the contracted amount was paid although only two of the seven gates contracted for the Shenbagathope reservoir were constructed. The payments were made despite the existence of the following red flags:*
>
> - *no physical checks were made by the engineer responsible,*
> - *the payments did not match the material received,*
> - *the engineer was suspended and*
> - *the new engineer wrote to the Special chief Engineer about the discrepancy he noted during his predecessor's period.*
>
> *Executive engineers did not check details in the measurement book before passing the bills for payment. The auditors also failed to check the measurement book and did not follow-up on the failure of management to compare payments, contract conditions and work done. Moreover, the auditors did not react to the suspension of the engineer.*
>
> *Source: The Office of the Comptroller and Auditor General of India, 2006*

6.9. SAI auditors can use red flags in planning and executing audits. In many cases management and internal auditors also compile lists of red flags which may indicate the risk of fraud and corruption. When assessing the strength of internal controls, SAI auditors can assess the appropriateness and use of red flags by an entity. SAI auditors should also bear in mind that potential red flags are likely to abound in an emergency situation and that the presence of such indicators does not in and of itself mean that fraud and corruption have occurred. However, red flags should be given serious consideration, especially those which are highlighted in the reports of other auditors.

6.10. A few examples of red flag indicators of possible fraud and corruption in the emergency phase following a disaster may include the following:

- unjustified or extended overrides of controls by staff;
- irregular or poorly explained oversight activities;
- disbursements and distribution patterns not changing to reflect developments in an emergency situation;
- unusual transactions, requests for funds and expenses claims;
- delays in providing information requested;
- significant or unusual changes in suppliers or beneficiary lists;
- transactions that lack documentation or normal approval;
- staff taking care of ordering, paying and distributing;

- complaints by beneficiaries or reports in the media regarding diversion of aid or delivery of poor quality food, supplies or shelter;
- individuals involved in the aid chain showing unexplained signs of prosperity;
- increased hiring from a particular group or of relatives;
- non transparent hiring processes;
- non-existence of a code of conduct or other similar controls on staff behaviour;
- employees showing little respect for procedures and rules; or
- employees refusing to take holiday or stay at home when sick.

Part 3: Risks and Red Flags

Part 3 of ISSAI 5530 provides examples of risks and red flags which may identify those risks in the emergency phase following a disaster. Examples are included where available by way of illustration.

- The first risk is that of the general environment of the affected country, about which SAI auditors should inform themselves from the outset of the audit.
- The risks in paragraphs B to D relate to specific functions in the disaster-related aid chain.
- The risks in paragraphs E to J follow the phases of the emergency.
- The risks in paragraphs K and L are concerned with two major specific kinds of aid in the emergency phase following a disaster.

The list of examples is not exhaustive and should be supplemented from the auditors' own experience. Many of the risks and red flags are neither unique to fraud and corruption nor to disaster-related aid and may be relevant to other audit areas or for audits which do not specifically focus on fraud and corruption.

RISKS AND RED FLAGS

A. **General environment risks**

Post-disaster cases of fraud and corruption are more likely to occur in complex situations and/or where high levels of corruption, weak government, no anti-corruption measures, weak rule of law and no media scrutiny existed before the disaster.[46] The risk is raised when the crisis occurs very suddenly and without warning and where the value and volume of the relief aid is large. The risk of fraud and corruption is also higher in environments where the image of the aid actors is negative (that they are wasteful and do not respond to needs), where there are low levels of transparency and accountability and the targeted population is weak, disorganised, uneducated and does not have access to information about their rights.

> *The Impact of lack of information in food assistance, Kenya[47]*
>
> *In its study of food assistance integrity in Kenya, Transparency International noted that food assistance arrived at the District Commissioner's office with no advance warning and no indication of how it should be prioritised. This lack of information allowed for varying interpretations and an ad hoc approach to targeting. It also gave rise to considerable opportunities for diversion and local suspicion of fraud and corruption, whether justified or*

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[46]   See part 1 of this ISSAI, paragraphs 4.4 to 4.12 for more on this.
[47]   "Food Assistance Integrity Study" – An analysis of the 2011 drought response in Kenya by Transparency International Kenya

> *not.*
>
> <u>*Source: Transparency International Kenya*</u>

General environment red flags

- Country rates poorly in The World Bank Worldwide Governance Indicators, the Transparency International Corruption Perceptions Index or the Council of Europe GRECO evaluations (see Part 4, paragraph 7.2 of this guide).
- Country has not ratified the UN Convention Against Corruption (UNCAC) or has a weak implementation mechanism to fully domesticate the Convention's provisions.[48]
- Reports in the local, national or international media of fraudulent or corrupt behaviour.
- Needs assessments and corresponding funding requirements are not clear, leaving room for fraudulent or corrupt interpretation.
- Very high agency staff turnover.
- Complaints from intended recipients, interest groups or in the media that aid is not arriving at its destination.
- Evidence that part or all of aid goods and services are not being passed on to the intended recipients.
- Complaints of malpractice from the potential suppliers of emergency goods.
- Performance information indicates significant non-delivery of aid.
- Evidence that local authorities or powerful individuals levy unauthorised taxes on the staff of locally-recruited relief workers.
- Abuse of a position of monopoly over natural resources.
- Denial of auditors' access to records, facilities, certain employees, beneficiaries, partners or others from whom audit evidence might be sought.
- Aid beneficiaries unaware of their entitlements and details of the deliverables.
- Lack of transparency and consistency on selection criteria of beneficiaries.
- Access to beneficiaries is limited or restricted.[49]
- Lack of effective complaint mechanisms for staff, beneficiaries or NGOs.
- Lack of support to local, national and international investigative journalism.

B. **Weak governance, monitoring and supervision risks**

Where governance is dispersed amongst many local, national and international actors, and monitoring and supervision are not considered to be priorities, opportunities for fraud and

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[48] For the present status of signatories to the United Nations convention Against Corruption see http://www.unodc.org/unodc/en/treaties/CAC/signatories.html

[49] This can be for cases where staff can't reach beneficiaries due to security, contextual or geographical constraints. In such cases programmes are remotely managed. There is also a heavier reliance on implementing partners. Access can be restricted by government or other host authorities or gatekeepers. Auditors can also be restricted or discouraged from speaking to beneficiaries under false pretences (security being the most commonly used one)

corruption can be present at all levels of the aid process. At the outset of the emergency those responsible for management and supervision may have taken the role at short notice with inadequate knowledge for the job or of the internal controls in place or required. In addition, they will necessarily be under immense pressure to disburse aid and save lives quickly. In some cases individuals use the situation to enrich themselves in the knowledge that their actions are unlikely to be discovered, as in the following examples.

Unsupervised staff[50]

Field office supervisory staff of an NGO had very little opportunity to visit one programme site as insecurity in the area prevented their travel. Left on their own to run the programme, the two field managers on-site arranged things so that their partners created and submitted false accounts. Over a period of several months they claimed much higher costs than had actually incurred for the work done. Losses are estimated to have been about USD 40,000.

Source :Preventing Corruption in Humanitarian Assistance (Transparency International)

Inadequate monitoring and audit[51]

In West Pokot, Kenya, a District Commissioner was arrested in September 2011 on charges of stealing 280 bags of maize that was meant for distribution as food aid. At the same time employees of the National Cereals and Produce Board were under investigation and subsequently charged for the sale of relief food. In response the Provincial Commissioner ordered an audit of Pokot South District. This appears, however, to have been the only audit undertaken of government food aid during the 2011 drought in Kenya.

Source: Transparency International Kenya

◄   Weak governance, monitoring and supervision red flags

- Poor coordination of multiple aid implementing agencies, facilitating double-funding of programmes and duplication or gaps in service.
- Little transparency in aid agencies' planning, budgeting and programme implementation.
- Difficulty in accessing field sites for on-site monitoring.
- Management of local office dominated by one individual (or small group) with no effective oversight or compensating controls.
- Evidence of local office management overriding controls put in place by HQ or government without this being justified by the emergency situation.
- Difficulty in determining who is in charge and lines of control.

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[50]   http://www.scribd.com/doc/4595581/Preventing-Corruption-in-Humanitarian-Assistance
[51]   "Food Assistance Integrity Study" – An analysis of the 2011 drought response in Kenya by Transparency International Kenya.

- The existence of unusual or complex organisational structures or lines of authority.
- Evidence that known weaknesses have not been corrected on a timely basis or remain uncorrected.
- Documents supporting expenditure declared not adequate and not properly checked or followed up.
- Inadequate monitoring of controls at local level, including automated controls and controls over financial reporting.
- Inadequate training of staff in standard administrative policies, processes, procedures and controls.
- Ineffective communication, implementation, support or enforcement of values or ethical standards to staff, especially to those newly recruited for the emergency.
- Failure to properly examine monitoring and evaluation reports or to follow up and implement their recommendations.

C. **Human Resources risks**

The urgency of obtaining help may result in bribery, coercion, cronyism or nepotism playing a role in recruitment of staff, as in the following example.

Bias in recruitment [52]

Either due to political interference or internal pressures to employ more staff from a certain ethnic group, bias in recruiting staff was found to be quite common in Kenya. Agencies working in Turkana disclosed that there is a lot of pressure to employ Turkanas in the office, including in more senior positions than they are qualified to occupy. In Eastern Kenya, an agency recently received a death threat from a particular ethnic group in the area to coerce it into recruiting a member of the community in question as a water technician.

Source: Transparency International Kenya

Inadequate supervision and control may lead to inflation of salary levels, payroll fraud (non-existent employees, ex-employees, payroll salary higher than authorised salary) or unauthorised taxation of local staff salaries by local authorities or powerful individuals. Staff implementing disaster-related emergency response actions is often expatriate and recruited rapidly on short-term contracts. They do not fully understand the local context and this may impede their ability to identify and tackle corruption. Local staff taken on and paid to register the needy members of the population and to assist in distribution may see it as their right to engage in fraudulent and corrupt behaviour, as in the following case in Uganda.

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[52] "Food Assistance Integrity Study" – An analysis of the 2011 drought response in Kenya by Transparency International Kenya

> ### *Low-paid workers see corruption as a justifiable perk*[53]
>
> *Aid agencies in Uganda frequently took on local helpers to help cope with the influx into camps of refugees from the conflict in the North of the country. These individuals were paid a small amount of money (US$4-7 per day). They were then often given large numbers of ration cards to distribute during refugee registration. It was later discovered that many of these helpers saw using their position to earn money as a justifiable perk. For example, registration of friends, family and ghost beneficiaries (either on their own or collaborating with local leaders) by adding names during the registration process, pretending to distribute ration cards to refugees then selling them to people outside the camp, altering data to increase or decrease a person's ration or diverting food and distributing it to non-beneficiaries, usually against payment.*
>
> *Source: Perceptions of Corruption in Humanitarian Assistance among Internally Displaced Persons in Northern Uganda (HPG Working Paper)*

<u>Human resource risks red flags</u>

- Large number of temporary staff recruited without vetting.
- Staff recruited rapidly with little attention paid to their previous record of honesty, potential conflicts of interest or personal circumstances (e.g. indebtedness, addiction) which would make them unsuitable for a position of trust.
- Staffing decisions made by one person.
- Unusually high turnover or stability among financial or procurement staff.
- Abuse of position by managers or expatriate staff leading local staff to justify engaging in fraudulent and corrupt activities.
- Low morale among staff and a lax attitude towards controls and procedures.
- Non-respect of requirement to separate incompatible functions.
- Financial, staffing or procurement decisions made at the discretion of a single person or unit without checks.
- More employees on the payroll than would reasonably be expected to carry out the tasks;
- Surplus staff kept on after the emergency is over.
- Inadequate employee details provided.
- The identity of a staff member is missing on the personnel record.
- Employees with duplicate Social Security numbers, names and addresses.
- Personnel not taking leave or staying at home when sick.
- Displays of wealth by staff members.
- Staff giving unreasonable responses to questions from the auditors or getting annoyed with them.
- Rumours of "ghost" workers – wages paid to dead, retired or non-existent staff.
- Lack or limited use of training or capacity-building programmes for staff.
- No policy on nepotism, conflict of interest, gifts or hospitality.

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[53] http://www.cashlearning.org/downloads/resources/documents/transparency_international_uganda_august-2008.pdf

- Lack of staff code of conduct, which prohibits fraud, corruption and abuse (including that of a sexual nature).

D. **Finance and administration risks**

Internal controls either may not be in place or may not be operating adequately due to the emergency situation. Against this backdrop, unscrupulous staff at all points along the aid flow chain may be tempted to engage in fraudulent or corrupt activity. Examples of risks include that of bribes paid to initiate payments where they are not due, diversion of funds by public officials, agency staff or bank staff or theft of funds held in cash. The following case was uncovered during an audit.

> *Falsified cash count forms*[54]
>
> *In 2008 the Norwegian Refugee Council HQ sent an auditor to make an on-the-spot cash count at a field office in Liberia. He discovered $60,000 dollars to be missing. He informed the police, who tracked it down to a locally-employed finance officer who had falsified cash count forms after they had been signed by the manager. The fraudster had not made any attempt to hide his theft by producing false invoices and management had made no checks of his work. This shows the importance of management oversight and properly functioning financial controls.*
>
> *Source: Preventing Corruption in Humanitarian Operations (Transparency International)*

Finance and administration risk red flags

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- Poor implementation of article 9 of the UNCAC. [55]
- Local authority or partner claiming they have not received funds.
- Unclear accounting of funds received.
- Requests for additional funding which cannot be explained.
- Weaknesses in design, operation and effectiveness of the accounting and/or internal controls systems as required by article 9(2)(c) and (d) of UNCAC.[56]
- Failure to strengthen accounting and information systems despite the occurrence of errors.
- Inconsistent, vague or implausible responses from management or employees arising from inquiries or analytical procedures.
- Non-financial staff's excessive participation in or preoccupation with accounting and reporting issues.
- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification or entity policy.
- Unjustified requests for cash payments to beneficiaries instead of relief goods.

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[54] http://www.transparency.org/publications/publications/humanitarian_handbook_feb_2010 page 62
[55] http://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf page 12
[56] ibid

- Cash payment receipts or signature sheets with similar signatures or predominantly thumbprints.
- Regular payments not referenced to a contract.
- Large amounts of over- or under-spending.
- Significant budget adjustments.
- Unusually large transactions.
- Unsupported or unauthorized balances or transactions.
- Missing or incomplete documents.
- Failure to use serial numbered documents.
- Documents that appear to have been altered, are suspiciously uniform or that appear to have been forged.
- Electronic records that frequently "crash" and have to be manually re-entered.
- Unavailability of other than photocopied or electronically transmitted documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes or changes in trends or important financial statement ratios or relationships.
- Unusual discrepancies between the entity's records and confirmation replies.
- Unexplained evidence of the use of multiple bank accounts.
- Invoices requiring payment into personal or overseas bank accounts.
- Invoices without documentation of goods received.
- Currency exchange transactions without official bank documentation.
- Insufficient separation of staff duties.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorised duties.
- High turnover rates or employment of accounting, internal audit or information technology staff.
- Staff salary advances not recorded.
- Compensation paid to staff or former staff that is out of proportion.
- Unclaimed wages not returned to cashier.
- Personal expense claims do not agree with the travel records.

E.   **Needs assessment and targeting risks**

Before supplies are purchased and distributed, needs must be assessed. Potential risks include pressure on assessors to inflate needs or favour specific groups who may not be the neediest in the disaster-affected population. Consultants engaged to carry out the assessment may take advantage of the emergency situation to inflate time or costs. National, regional or local authorities of the affected areas may threaten restrictions or barriers or offer bribes so that the requirements they stipulate are met. Those charged with providing assessments of the situation

and needs may overstate or misrepresent the needs of the affected population, as was reported in the following case.

> *Falsifying needs assessment[57]*
>
> *According to a war correspondent, "In order to gain funds from donors, a Norwegian aid agency staged a huge set-up. They rounded up some Sudanese children in a field, recruited some Arab looking men to pose as slave traders, documented the whole thing as a slave trade in order to get money for the redemption of these supposed slaves and half an hour later, those 'slaves' were back at work in the fields as free people."*
>
> Source: *Corruption in Emergencies: What role for media? (U4)*

The complexity and urgency of the situation and the lack of local knowledge may result in decisions to charge local government officials or local elites with a decision-making and management roles without adequate supervision as the following example shows.

> *Biased targeting and needs assessment[58]*
>
> *In Andhra Pradesh in 2001-2002, a food-for-work programme administered by local elites and set up to meet the needs of victims of a drought was found to be riddled with corruption, with the result that the poorest and neediest members of the population were not receiving the relief aid to which they were entitled. Local elites ensured the best jobs were given to village chiefs and contracts were awarded to unscrupulous contractors in return for bribes. These contractors received low cost rice from the government, paid workers the equivalent value in cash and then sold the rice on the open market. Falsified roll-calls and paperwork were used to cover the fraudulent and corrupt activities. The reason this happened was the decision to decentralise decision-making about recipients, payments and works delivery to community level based on inadequate or false information provided during the initial assessment about local power structures. Once the programme was established there was also a failure to monitor the structure that had been set up.*
>
> Source: *State Transfers to the Poor and Back: The Case of the Food For Work Programmeme in Andhra Pradesh (ODI Working Paper August 2003)*

◄

Needs assessment and targeting red flags

- Existence of social, political or cultural divisions in the affected population which may result in the distortion of targeting.
- Unclear, unduly complex or narrow targeting criteria that are not physically verifiable.
- Selection of target groups by national or local authorities and elites with minimal checks by field staff or agency staff.
- Field and agency staff with little local knowledge.

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[57] http://www.u4.no/publications/corruption-in-emergencies-what-role-for-media/ page 23
[58] http://www.odi.org.uk/resources/docs/80.pdf

- Beneficiaries have not been required to acknowledge receipt of aid.
- Beneficiary lists are absent or have been frequently altered in an unexplained way.
- Evidence to suggest that beneficiaries are mostly from one social group, village or tribe, with the exclusion of others who are equally in need of assistance.
- Products or services identified for purchase not indicated in the need assessment or are of little or no use in the emergency situation.
- Evidence that supplies and services are being directed to areas which are not the neediest locations.

F. **Implementing partner risks**

As the emergency evolves, donors of aid and international implementing agencies need to find partners to work with in the field, which may present increased risks of fraud or corruption. Potential partners may bribe or offer kickbacks so that they are selected. This may be in collusion with or at the behest of agency staff. Agency staff may even invent partners for personal gain. The following example illustrates how the requirements of urgency may result in the selection of corrupt partners.

> *Diversion involving collusion between transporters and partners[59]*
>
> *The World Food Programme (WFP) provides a vast amount of food aid to Somalia. According to WFP transporters and other sources involved in food aid distribution interviewed by the UN Monitoring Group, the system offers a variety of opportunities for diversion all along the supply chain. Diversion involving collusion between ground transporters and implementing partners is a common form of fraud—especially where transporters and implementing partners are actually owned or controlled by the same people. WFP requires that implementing partners certify the delivery of food as proof that ground transporters have fulfilled their contracts. Implementing partners and transporters, as well as other interested parties, may therefore agree to divert food aid and share the proceeds. Percentages vary, but sources interviewed describe an approximate division of 30 per cent for the implementing partner and local WFP personnel, 10 per cent for the ground transporter and 5 to 10 per cent for the armed group in control of the area. The remainder of the consignment is distributed to the recipient population.*
>
> *Following the UN report and reports in the media, WFP's external auditor and others issued reports that found weaknesses in WFP's control of its operations in Somalia.[60] In response, WFP took steps to strengthen its controls. However, a subsequent audit by the United States Government Accountability Office found, inter alia that WFP staff lack appropriate instructions to develop monitoring plans for those areas that are most vulnerable to waste, fraud and abuse. The GAO also found that WFP lacks reliable data on food assistance distribution and losses and that WFP's Executive Board oversight is limited.[61]WFP agreed with the overall conclusions of the report.*
>
> *Source: Report of the Monitoring Group on Somalia pursuant to Security Council resolution 1853 (2008)*

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[59] http://reliefweb.int/sites/reliefweb.int/files/resources/467A5CB05AD7E446492576EA0004325D-Full_Report.pdf   page 60
[60] Comptroller and Auditor General of India, *External Audit Report: World Food Program's Somalia Operations*, WFP/EB.1/2011/5-B/1 (2011) See http://one.wfp.org/eb/docs/2011/wfp229200~1.pdf
[61] GAO, World Food Program: Stronger Controls Needed in High-Risk Areas (GAO-12-790 : 13 September 2012) See http://www.gao.gov/assets/650/648243.pdf.

Implementing partner red flags

- Potential partners who do not have physical offices, clear governance structures or adequate references.
- Reports by potential partners, local officials or in the media that the selection of partners was nepotistic or based on cronyism, bribes or extortion.
- Signs that costs are inflated due to an excessive number of partners or inflated organisational structures.
- No clear and agreed partnership agreement with contractual obligations on what and how aid will be delivered.
- Partners resistant to monitoring and evaluation by lead agency.
- Failure by partners to deliver services required.

G. **Obtaining supplies: purchasing and procurement risks**

Amongst programme support functions, procurement is generally considered to be the area with the highest risk of fraud and corruption. Following a disaster the first priority is to identify and meet the most urgent needs of the population affected through the purchase and distribution of the necessary goods and services. Local institutions and public services may not be functioning as normal or at all, following the disaster. The importance of price and quality are likely to be temporarily subordinated to concerns with urgent delivery and it is probable that some inefficient procurement will occur. The risk of this is greatly reduced if adequate disaster-preparedness steps have been taken. SAI auditors should check the procedures in place for emergency procurement following disasters, which may include derogations from normal tendering procedures. For example, international procurement may be too time-consuming, unduly costly and run the risk of distorting local markets or it may be difficult to obtain the minimum number of bids in view of the devastation of the local economy. SAI auditors should be aware of the additional risks of fraud and corruption in such circumstances. The following example illustrates the consequences of failed emergency procurement.

> *Failed emergency procurement[62]*
>
> *Following emergency procurement procedures resulted in insufficient evaluation, as reported in the Sri Lankan media: "When work on the Hungama tsunami housing project commenced in 2005, the plan was to build 100 houses for victims who had lost their homes. A year later only three houses were occupied and of that only one by a tsunami victim. Only 70 houses were built and most of them are falling apart at the site located in Siribopura, Hambantota, 260 km from the Sri Lankan capital Colombo. The funders of the massive project and the contractors agree that the houses were constructed using low quality material and each blames the other of embezzlement."*
> *Source: Corruption in Emergency Procurement (U4)*

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[62] http://www.u4.no/publications/corruption-in-aid-funded-emergency-procurement/

Rushed decisions and inexperienced personnel can result in overpricing goods needed urgently, as in the following example.

> *Overpricing of urgently needed goods*[63]
>
> *A UNHCR report on the 2004 tsunami response in Sri Lanka that noted in the supply of shelter supplies the zinc roofing internationally procured cost US$ 950,000 and that the local cost would have been slightly higher than the 15 per cent benchmark established by UNHCR. The urgency of the procurement and the initial aim to complete the transitional shelters by 30 June 2005 was not fully taken into account. Before the internationally procured zinc sheets arrived, a further 10,000 were procured locally at a cost of US$ 98,000. Therefore most of the envisaged savings by procuring internationally were lost and the programme over-procured roofing sheets: enough for almost 4,000 extra shelters."*
>
> *Source: Corruption in Emergency Procurement (U4)*

Where emergency procurement procedures are applied, derogations should be transparent, clearly documented, duly justified and time-limited. This is also the case for direct purchasing without tendering which is often carried out in the early stages of the emergency response phase. Many of the following red flags for procurement will be apparent when emergency procurement procedures are applied. These red flags should nevertheless be examined by SAI auditors since corresponding opportunities for fraud and corruption are present. Goods which are directly purchased are subject to the same red flags as shown below for the post-award phase.

◄

    General procurement red flags

- Poor implementation of article 9 (1) of the United Nations Convention against Corruption.[64]
- Continued use of emergency procurement procedures, which permit normal procurement rules to be circumvented, when they are no longer justified (e.g. to take on contractors to rebuild local government offices in the aftermath of a disaster).
- Procurement of goods and services that might be prone to corruption, such as food assistance, construction materials and medicine.
- The size of the contract.[65]
- Reduced financial controls.[66]

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[63] http://www.u4.no/publications/corruption-in-aid-funded-emergency-procurement/
[64] http://www.unodc.org/unodc/en/treaties/CAC/index.html
[65] The largest contracts are often procured in agreement with headquarters staff. Medium-sized contracts are normally handled by a regional office or an office in the capital of the country of operation. Small contracts are usually negotiated by emergency-workers located in the area of operation. "On the spot" procurement seems to be more prone to corruption. However, there is also the counter-argument: Bribes are often calculated as percentages of the total contract amount. The larger the potential contract, the more willing a firm might be to take risks in the form of corruption. Donors and aid agencies experience enormous pressure to spend vast amounts of money quickly and therefore are likely to favour larger contracts with a few suppliers rather than many small contracts that are difficult to manage.

- Insufficient free competition conditions (monopoly over key supplies).
- Complex, unclear or conflicting procurement legislation.
- Existence of legal proceedings or inspection by regulatory authorities.
- Complaints received from potential suppliers or in the media about unfair practices related to awarding of tenders.
- Reports from beneficiaries or in the media of non-deliveries or of delivery of substandard goods, services or construction.
- Failure to consult lists of doubtful companies, such as the World Bank Listing of Ineligible Firms.[67]
- Donated relief goods on sale in local stores or markets.
- Goods with imminent or past expiry dates.
- Excessive discretion to determine demand and preferences granted to procurement officers, which makes it easier it is to cover improper influence over their decisions.
- Ex government officials or their family members functioning as executives of companies to which tenders have been awarded.
- Use of intermediaries for which there appears to be no clear operational justification.
- The absence of a list of pre-approved potential suppliers in case of emergency.

◄ Pre-tendering phase red flags

- Efforts to purchase items not specified in the need assessment.
- Manipulation of procurement thresholds to avoid prior review.
- Unreasonable prequalification requirements (in the context of an emergency situation).
- Ambiguous, incomplete or misleading bid specifications.
- Bid specifications which are too narrow or too broad or in any way designed to exclude or favour a particular supplier, product/brand or national, political, social, economic or ethnic group.
- Inadequate bid evaluation criteria or procedures.
- Contract amounts just below the threshold for competitive bidding or senior management review.

◄ Tendering and decision-making phase red flags

- Failure to make bidding documents available to all candidates who could potentially supply the goods and services required in the emergency situation.
- Short or inadequate notice to bidders (seen within the context of the emergency).

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[66] In emergency situations, normal financial control procedures are often "fast-tracked" to enable staff to respond flexibly and quickly to needs as they arise. Furthermore, ad hoc acquisitions, even where framework agreements exist, are more readily accepted.

[67] http://web.worldbank.org/external/default/main?theSitePK=84266&contentMDK=64069844&menuPK=116730&pagePK=64148989&piPK=64148984)

- Misuse of confidential information.
- Political and diplomatic pressure.
- Unusual bidding patterns.
- Apparent connections between bidders (name, address, email, telephone or belonging to same political, social, economic or ethnic group).
- No physical address or telephone landline given (only P.O. Box and cellphone numbers).
- Common patterns in competing bids: the same calculations, errors, language, spelling, print style or typeface under different letterheads.
- Multiple contract awards to the same company.
- Frequent or inadequately justified "sole-sourcing," direct purchasing or negotiated contract.
- Bids which are unreasonably high or low.
- Bids not stored securely or opened in advance of due date.
- Bids not sealed or bid-opening procedures which are not transparent.
- Award to other than the lowest qualified bidder.
- Disqualifications that are poorly documented or explained.
- Evidence of pressure to select a certain contractor, subcontractor or agent.
- Contracts awarded to known friends, family of agency staff or to companies in which staff have a financial interest.
- Winning bid is very close to budget or estimate.
- Winning bid consistently the last submitted, altered at the last minute or just below the next lowest bid (indicating possible insider information).

Post-award phase/Direct purchasing red flags

- Frequent and inadequately justified sole-sourcing/direct purchasing.
- Use of agents or subcontractors of questionable integrity or restricted to a single political, economic, social or ethnic group.
- Over invoicing and under delivery by suppliers.
- Suppliers with no physical address.
- Beneficiary complaints regarding poor-quality goods, works or services.
- Delivery of goods, works or services which are poor-quality or do not conform to contract specifications.
- Continued acceptance of poor-quality goods, works or services despite awareness that requirements are not being met.
- Frequent contract amendments (change orders) or which appear unreasonable in the context of the contract signed.
- Questionable invoices which require clarification from sources outside the auditee;
- Invoices without matching orders.
- Unsolicited invoices.
- Payments made without matching invoices.
- Paying substantially more than market prices for goods and services without good reason.
- Absent, questionable or inadequate documentation.
- Repeated delays in customs clearance.

H.   **Goods and assets management risks**

Weak controls and non-existent inventories may result in theft or the unauthorised use of assets against payment or for favours. Storage risks include attacking, looting and pillaging of warehouses, possibly in collusion with local staff. The following 'doughnut scam' is an example of how theft in a warehouse was concealed.

The doughnut scam[68]

The 'doughnut scam,' which was reported by two agencies, illustrates some of the challenges in goods storage. In this scam, commodities are stacked in such a way that when one walks around the floor of the warehouse everything appears to be in place. However if one is able to get above the stacks of goods, it becomes apparent that they are hollow (thus the stack is in the shape of a doughnut), as all of the commodities that should have been in the centre had been removed.

Source: Preventing Corruption in Humanitarian Assistance (Transparency International)

Goods and assets management red flags

- Too much stock or the wrong kind purchased.
- Stocks stored in such a way as to conceal theft.
- Evidence that staff enter storage at unusual times.
- Supplies appear for sale on the local markets.
- Missing or incomplete inventory or assets recorded in the inventory and physically absent with no explanation.
- Weak control over physical assets or equipment that can easily be abused (e.g. cellular phones, digital cameras, computers, vehicles, fuel, tools, etc).
- Equipment not available for verification.
- Unauthorized use of assets.
- Disposal of assets not documented.
- Assets sold under market value.
- Loss of materials used in confidential government processes such as identification documents and passports.
- Multiple repairs made and purchase of spare parts claimed for assets.
- High maintenance costs.
- Vehicles used at strange times.
- Unexpectedly high consumption of fuel.

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[68]   http://www.scribd.com/doc/4595581/Preventing-Corruption-in-Humanitarian-Assistance

I.   **Movement of goods risks**

Transporting goods and supplies brings with it the risks of attacks, looting or loss of goods through extortion, coercion, bribery or diversion. Local staff may be bribed to falsify or not carry out reconciliation of goods dispatched and received, covering up leakage. Illegal charges may be made for the passage of goods, such as through roadblocks or visas. Diversion of supplies is generally for their subsequent sale on the open market, as in the following example.

Diversion of supplies during distribution[69]

According to a bus driver helping to deliver humanitarian aid in Afghanistan:"I remember that when there were distributions, I had one or two block leaders who would take [hire] my truck once a week, fill it up completely with aid items and go to the market to sell them. These products were taken from the people by force or were goods never given to the people."

Source: Corruption perceptions and Risks in Humanitarian Assistance: an Afghanistan Case Study (HPG)

Movement of goods red flags

- Repeated delays in customs clearance of goods.
- Existence of checkpoints through which aid and supplies must pass with the possibility for local authorities or local militias to extort bribes.
- No verification carried out of the quantity and quality of food and supplies following transportation but before distribution to ensure none has been diverted between the warehouse and point of distribution.
- More vehicles purchased or contracted than needed for amount of goods to be transported.
- Transport takes an unexpectedly long time.
- Mileage registered on transport vehicles or use of fuel substantially larger than normal for comparative trips/vehicles.
- Frequent reports of loss or damage of goods during transport.
- Handwritten, manually altered or photocopied transport documents.
- Reports and rumours that relief goods appear for sale on local markets.
- Packaging of food deliveries is damaged on arrival at the distribution point.
- Complaints of non-receipt or partial receipt of aid entitlements.

J.   **Registering beneficiaries and distribution of aid risks**

The registration of individuals entitled to aid following an emergency provides many opportunities for fraud and corruption. The victims are often unaware of their entitlements or

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[69]   http://www.odi.org.uk/resources/docs/4162.pdf

powerless to take action. A widespread form of corruption as reported in the media and by beneficiaries is the requirement of some form of payment (in cash or in kind) from the beneficiaries of aid to receive the aid to which they are entitled, as in the following case.

> *Beneficiaries obliged to pay for aid to which they are entitled[70]*
>
> *In Liberia internally displaced persons and refugees in several of the camps reported being obliged to pay 100-500 Liberian dollars in order to be registered at the camps, while others stated that women had to pay with sex. Several people alleged that camp leaders brought local residents who had not been displaced into the camps to be registered, which enabled excess numbers to be registered and extra registration cards to be generated, thereby making it easier to divert the food aid.*
>
> *Source: Corruption Perceptions and Risks in Humanitarian Assistance: a Liberia case study (HPG)*

Other reported risks involve false beneficiaries (or their leaders) bribing those drafting lists of emergency relief aid beneficiaries. Local authorities, politicians or elites may give preference to individuals based on social or political allegiance and ignore the neediest individuals. On the other hand, beneficiaries who are eligible may find a way to register more than once or claim falsely.

> *Distribution problems[71]*
>
> *Former aid workers from Maslakh, Afghanistan reported that "Just prior to the distribution, bribes were given to managers or supervisors of the distribution in order to capture the wheat or the flour and then sell it on the market"; "Food was distributed through block leaders' representatives and would not reach the targeted beneficiaries" and "The quality of non-food aid was inferior than the one that was supposed to be distributed, for example, blankets were single ply instead of double".*
> *Interview with a beneficiary:*
> *"Our turn was systematically skipped in order for the distributors to keep the excess food."*
>
> *Source: Corruption perceptions and Risks in Humanitarian Assistance: an Afghanistan Case Study (HPG)*

The following case shows the potential for huge sums to be paid out to fraudulent beneficiaries in the absence of proper preventive and detective controls.

> *Payments made based on bogus registration data[72]*
>
> *The US SAI, the Government Accountability Office, identified significant internal control weaknesses in the Individuals and Household Program that resulted in the Federal Emergency Management Agency making tens of thousands of payments based on bogus registration data.*

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[70] http://www.odi.org.uk/resources/docs/379.pdf
[71] http://www.odi.org.uk/resources/docs/4162.pdf
[72] http://www.gao.gov/assets/120/115223.pdf Report number GAO-07-418T

> *The following examples relate to the hurricane Rita and hurricane Katrina recovery efforts:*
>
> - *Millions of dollars paid to individuals who used bogus damaged property addresses, invalid Social Security numbers or duplicate registrations.*
>
> - *Millions of dollars in payments to thousands of registrants who used Social Security numbers that had never been issued or belonged to deceased individuals.*
>
> - *Millions of dollars paid on over a thousand registrations containing the names and Social Security numbers of individuals incarcerated in federal or state prisons during the hurricanes.*
>
> - *FEMA provided thousands of individuals with rental assistance money while at the same time providing rent-free housing in hotels, apartments and FEMA trailers.*
>
> - *FEMA provided about $20 million in potentially duplicate payments to individuals who registered and received assistance twice, for both hurricanes Katrina and Rita, using the same Social Security number and damaged address.*
>
> - *Several million dollars' worth of payments were made to ineligible nonqualified aliens.*
>
> *Source: Hurricanes Katrina and Rita Disaster Relief (GAO 29 January 2007)*

Registering beneficiaries and distribution of aid red flags

- Beneficiaries have not been required to acknowledge receipt of aid.
- Beneficiary lists are absent or have been altered in an unexplained way.
- Beneficiaries with identical characteristics or multiple appearance of similar names.
- Many absent beneficiaries who cannot physically register for or collect aid.
- Roadblocks or other means of preventing access to beneficiaries by militias or local authorities.
- Registration lists that are all thumbprints or where signatures seem similar.
- Identical or 'perfect' attendance lists for every distribution.
- Registration points always staffed by the same individuals.
- Staff responsible for registration or distribution exhibiting sudden prosperity or importance in the local community or refusing to take a day off.
- Registration, ration cards or vouchers without means of identifying the beneficiary.
- Altered or fake registration or ration cards.
- Reports of people exaggerating their needs or claiming more dependents.
- Reports of coercion of beneficiaries to bribe the distributors of aid resources.
- Reports of sexual favours being required by aid workers in return for food or supplies.
- Reports of unofficial post-distribution "taxation" of aid resources from beneficiaries.
- Large quantities of relief goods for sale in local markets or stores.
- Relief goods in the possession of local elites or militias.
- Beneficiaries continue to be malnourished or lacking relief supplies after aid distribution.

K. **Distribution of food aid and water risks**

Food aid is particularly prone to fraudulent and corrupt diversion by employees or powerful individuals within communities, either when dividing up consignments, during transport and unloading or as a result of redistribution or 'taxation' by local elites or authorities. Furthermore, beneficiaries may take other beneficiaries' food aid and water or be required by distributing staff to provide bribes or services such as sexual favours before receiving their entitlements. Food aid and water may also be of lesser quantities than the entitlement or of poor quality. The following cases illustrate some of these risks.

Skimming off rations[73]

Transparency International commissioned a study on corruption in humanitarian assistance which involved interviewing staff of NGOs. One interviewee described how in food aid distribution food was initially distributed using a weigh-scale to measure rations. This was slow, so with the donor's permission aid workers switched to using a hand scoop, thus measuring by volume not weight. In this way they ended up with excess rice and rather than returning it, sold it for personal profit on local markets.

Source: Preventing Corruption in Humanitarian Assistance (Transparency International)

Sexual harassment and beer for food aid in Burundi[74]

In this example, agency staff worked with locally established distribution committees and local authorities to determine the beneficiary list for food aid rations. When interviewed, beneficiaries described how people who established the lists put themselves first, followed by family and friends and then those capable of paying bribes, such as beer. Women claimed they had been obliged to have sexual relations with the village chief or others on the distribution committee or in some cases with agency staff to prevent having their names erased from the beneficiary list.

Source: Preventing Corruption in Humanitarian Assistance (Transparency International)

Water not reaching intended beneficiaries[75]

During the 2011 drought in Kenya, Transparency International found that despite the high risk associated with distributing food aid, it was often water distribution which was more susceptible to corruption. This is because quantification is difficult and it is very easy to resell. In Wajir, it was suggested that 30% of water intended for beneficiaries never reaches them.

Source: Transparency International Kenya

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[73] http://www.scribd.com/doc/4595581/Preventing-Corruption-in-Humanitarian-Assistance
[74] http://www.odi.org.uk/resources/docs/874.pdf p 47
[75] "Food Assistance Integrity Study" – An analysis of the 2011 drought response in Kenya by Transparency International Kenya

 Distribution of food aid and water red flags

- No requirement to make independent checks of beneficiaries to ensure that they receive the quantity and quality of aid to which they are entitled.
- Reports by beneficiaries, aid workers, civil society organisations or in the media that beneficiaries have to offer bribes (for example, hand over part of what they have received or provide sexual favours) to receive their rightful entitlement.
- Distribution points always staffed by the same individuals.
- Reports of diversion of food and supplies in the media.
- Existence of local militias or powerful elites which may oblige beneficiaries to give them all or part of their entitlement to food aid once received.
- Food measurement devices that can be manually changed in size or under-filled.
- Donated food for sale in local markets or stores.
- Disaster-affected individuals unaware of their entitlement to aid.

L. **Emergency shelter risks**

The arrival of disaster-related aid may exacerbate pre-existing fraud and corruption, particularly regarding the allocation, distribution and construction of emergency shelter. Non-affected individuals may bribe to receive land or shelter allocations or local, regional or national authorities may require bribes to secure or speed up allocation of land needed for emergency construction. Furthermore, contractors may bribe local authorities to accept non-compliant activity or sub-standard materials or work. The following case is an example of who may benefit when there is oversupply.

> *Houses allocated to false beneficiaries against bribes*[76]
>
> *According to statistics maintained by the Hambantota district in Sri Lanka, although only 3,393 houses were damaged in the tsunami, 6,028 new houses were built. The local media reported that the surplus houses went to heads and members of local councils, their friends and relatives, politicians' supporters and employees and individuals with influence and wealthy backgrounds. The houses were often then resold and the new home owners had to pay a bribe to have the name of the original owner removed from the beneficiary list and replace it with his own.*
>
> *Source: Corruption in Emergency Procurement (U4)*

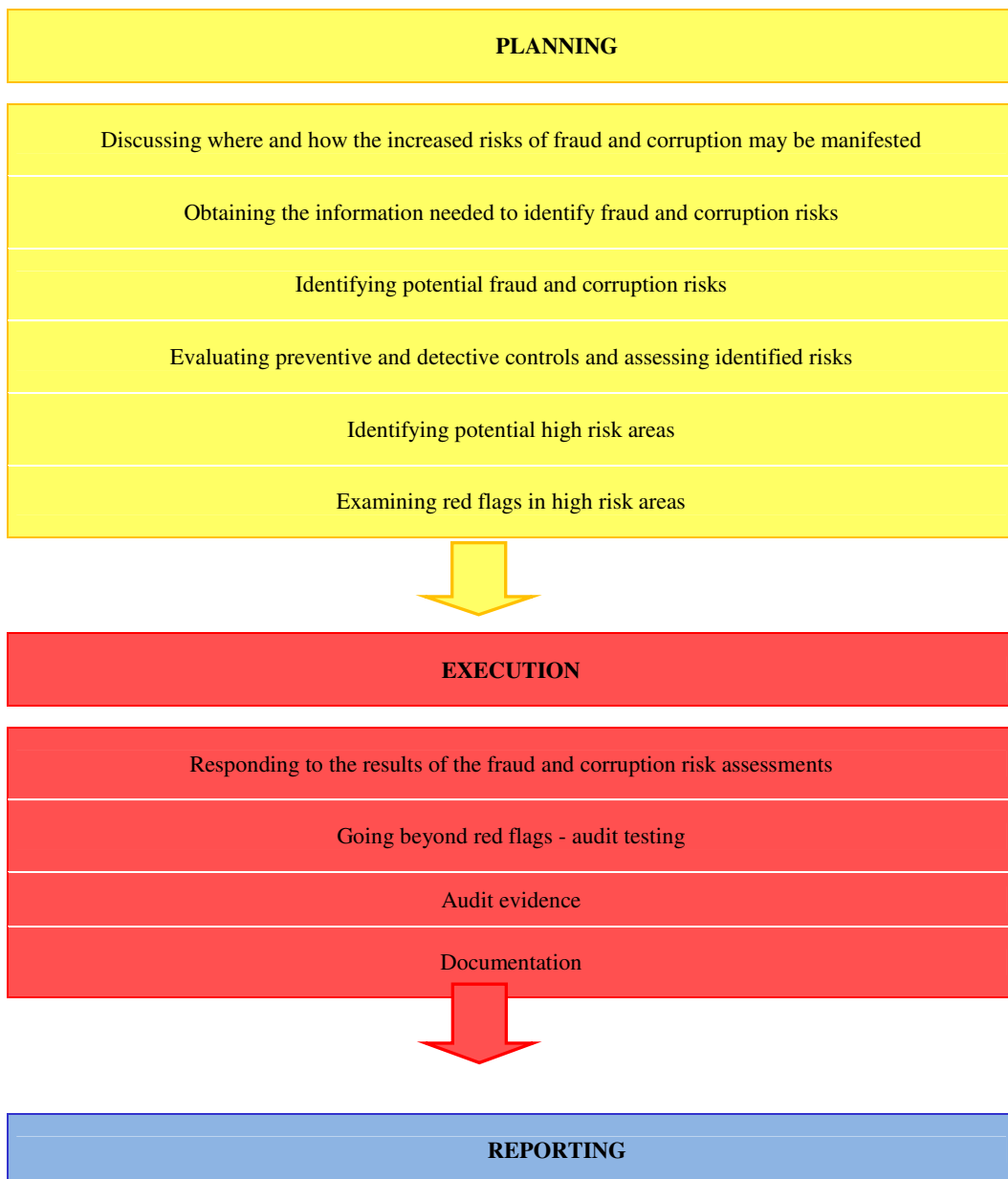[76] http://www.u4.no/publications/corruption-in-emergency-procurement/

<u>Emergency shelter red flags</u>

- Complaints by individuals or in the media that emergency shelters, housing or land is being allocated not according to need but against bribes or to locally powerful individuals or their families, friends or business and political allies.
- Complaints or evidence that materials used are overpriced, sub-standard, that buildings are rapidly deteriorating or do not adhere to minimum requirements for secure construction.
- Evidence that donor funds have been used to pay for more work than has been done.

Part 4: Adapting audit procedures

SAIs should adapt audit procedures to take account of the risks and indicators of risks outlined in part 3 of this guidance. Figure 2 gives an overview of the points in the audit process at which audit procedures can be adapted. While the diagram and the following paragraphs are based on the financial audit process, performance and compliance audit processes can be adapted in a similar way.

Figure 2: Adapting audit procedures to take account of the increased risk of fraud and corruption in the audit of the emergency phase following a disaster

PLANNING

Discussing where and how the increased risks of fraud and corruption may be manifested

Obtaining the information needed to identify fraud and corruption risks

Identifying potential fraud and corruption risks

Evaluating preventive and detective controls and assessing identified risks

Identifying potential high risk areas

Examining red flags in high risk areas

EXECUTION

Responding to the results of the fraud and corruption risk assessments

Going beyond red flags - audit testing

Audit evidence

Documentation

REPORTING

7. Planning

7.1. Discussing where and how the increased risks of fraud and corruption may be manifested

Before discussing the audit, the SAI audit team members should obtain an understanding of the organisations concerned (available from previous audits), facts surrounding the disaster and on the evolution of the emergency. Reports from auditors or other reliable officials who have visited the disaster location shortly after the disaster (and during the emergency phase) are important sources of information. Reports from civil society organisations and in the media can also provide background. The audit team should then meet to discuss the background to the audit, to assess the general environment of the organisations and individuals to be audited and to share ideas on potential perpetrators of fraud and corruption and what they stand to gain. Part 2 of this guidance is useful for the audit team at this stage of the audit.

7.2. Obtaining the information needed to identify fraud and corruption risks

At the start of the engagement the audit team has to obtain up-to-date information on the evolution of the emergency, the aid flows, the outcome of the disaster and the current situation on the ground. The audit team should ask staff in positions of responsibility about any actual or suspected cases of fraud and corruption and about complaints received via hotlines or whistleblowers. The team has to document the preventive and detective controls which have been established how they were monitored during the emergency response phase and how supplies were purchased, stored, transported and distributed. The audit team should question staff in positions of responsibility on their attitude towards and understanding of fraud and corruption and on what they conveyed to other staff regarding tolerance of such activity. Where replies to questions are ambiguous they should be corroborated with other audit evidence. Similarly, if figures are available despite the emergency circumstances to carry out analytical review procedures, explanations should be sought to explain unexpected relationships.

Before embarking on the audit, the SAI should consult international indicators of corruption and governance regarding the country in which the audit is to take place. SAIs in countries which receive disaster-related aid may have a good understanding of the quality of the governance in their own countries or the tendency towards corruption. SAIs from countries providing the aid may consider consulting regularly updated documents such as the World Bank Governance Indicators,[77] the Transparency International Corruption Perceptions Index[78], the Council of Europe GRECO evaluations[79] and the executive summaries of the country reports under the Mechanism for the Review of Implementation of the UNCAC.[80]

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[77] http://info.worldbankgovernance/wgi/index.asp
[78] http://cpi.transparency.org/cpi2011/results
[79] http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/ReportsRound3_en.asp
[80] http://www.unodc.org/unodc/en/treaties/CAC/country-profile/index.html)

Appendix 1 reproduces a list of corruption risk assessment questions prepared by Transparency International and the U4 Anti-Corruption Centre. These are examples of the questions SAI auditors can ask when seeking to obtain information on the degree of risk of fraud and corruption in the environment of the audit.

7.3. Identifying potential fraud and corruption risks

Based on the information gathered and exercising professional scepticism as appropriate, the audit team should be able to reach a judgement on the extent to which incentives/pressure, opportunities or attitudes /rationalisation for fraud and corruption are present. Auditors should prepare a list of the type of fraud and corruption risks identified, their potential significance, the *likelihood* of their occurrence and on how widespread the problem is perceived to be. The audit team should also bear in mind that in an emergency situation it is often easy for staff in positions of responsibility and trust to override controls. Separate consideration should be given to this risk and additional enquiries made where necessary.

7.4. Evaluating preventive and detective controls and assessing identified risks

In addition to checking the standard internal control mechanisms on which information has been gathered as described in paragraph 7.2, SAI auditors should verify the existence and effective functioning of:

- **controls to prevent** fraud and corruption (for example, ensuring that staff working together in key functions such as purchasing or accounting originate from different social, ethnic and political groups or rotating staff between distribution points);
- **controls to detect** fraud and corruption (for example, checks of quantity and quality of supplies delivered to the original order form or checks of goods received at distribution points against the records of what was dispatched from the warehouse);
- established and well-advertised **mechanisms for dealing with cases** of suspected fraud and corruption which may have occurred (clear instructions as to how staff should act when they find or are informed of suspected cases); and
- arrangements for receiving complaints and dealing with whistle-blowers.

Where there is no properly functioning internal control system (the probability of this is relatively high in an emergency following a disaster), SAI auditors should consider what assurance they can take from the attitude of staff in positions of responsibility towards fraud and corruption. Accordingly, the audit team should also consider the following:

- commitment by senior staff to promote an anti-fraud and corruption environment and the articulation of a 'Zero-tolerance' attitude;
- the existence and communication of a code of ethics, code of conduct, etc.;
- the procedures in place to report suspected cases of fraud and corruption and protect whistle-blowers;
- the procedures in place to deal with cases of suspected fraud or corruption;
- the existence of applicable sanctions;
- previously established lists of suspected cases of fraud or corruption and the outcome; and

- the visible commitment of those responsible for governance to the fight against fraud and corruption.

The audit team should then assess the fraud and corruption risks considered in section 7.3 against the operation of the internal controls identified and the quality of the anti-fraud environment. This assessment should allow them to determine which risks are addressed by the controls in place and which and to what extent the other risks remain exposed.

7.5. Identifying potential high risk areas

In an emergency following a disaster, the risks of fraud and corruption have been found to be the highest in the delivery of food aid and medical supplies, in construction of emergency accommodation and basic infrastructure (for example, water supply and sanitation) and in the use of cash.[81] The procurement process also presents opportunities and risks for corruption because procurement of goods, works and services involves substantial amounts of money. In addition, the non-financial aspects of programming such as targeting and registration of beneficiaries are subject to corrupt manipulation and thus need to be carefully scrutinised. SAI auditors have to use their own experience and judgement to draw conclusions in drawing up a list of areas that are to be labelled 'High Risk.' Throughout the audit, they should also remain aware that circumstances and knowledge of the situation may change and that the risk classification may need to be amended.

7.6. Examining red flags in high risk areas

Part 3 of this guidance provides examples of red flags which indicate an increased risk of fraud and corruption. The audit team should prepare a list of red flags for use during both planning and execution and should update this list regularly based on experience gained as the audit progresses. At the end of the planning phase the audit team should examine whether the red flags in the high risk areas identified are valid indicators of risk for the audit or whether they exist merely because of the emergency nature of the situation. They should also assess whether the risks identified are addressed by the preventive and detective controls in operation. Where there is any doubt, the risk remains a high one and audit procedures should be adapted accordingly.

8. Execution

8.1. Responding to the results of the fraud and corruption risk assessments

Using the identification of high risk areas and red flags within those areas carried out at the planning

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[81] The magnitude of risks varies hugely in different environments: for example, although the use of cash is widely recognised to be a major risk area, a recent study in Kenya revealed that use of cash was less risky than distributing in-kind donations. http://reliefweb.int/node/484473

stage, the SAI can develop the audit objectives and design audit procedures accordingly. Decisions have to be made at this point on the audit approach; the nature, timing and extent of the audit procedures to be performed; and the make-up of the audit team. For example, if the disaster-related aid to be audited was managed at the local level by expatriate staff on temporary contracts with minimum supervision and purchasing and the selection of contractors was carried out using poorly documented emergency procedures, the audit team may decide to rely solely on direct **substantive testing**. It may be deemed necessary to send a relatively large team of auditors to the local site to test a large sample of transactions with clear instructions as to how to react if there are suspected cases of fraud and corruption. If, on the other hand, the audit team has received reports from beneficiaries, civil society groups, whistle-blowers or the media that the intended beneficiaries are not receiving the aid to which they are entitled, it may be necessary to conduct **a survey** of members of the local population.

The membership of the audit team is dictated by the audit procedures to be performed. For example, where suspected cases of fraud and corruption already exist, investigative experts may accompany the auditors (if envisaged in the mandate of the SAI) and where there are doubts about the quality of the construction of emergency accommodation or infrastructure, technical experts such as engineers may be required. The members of the audit team should receive clear instructions as to how to act when they come across cases they suspect are fraudulent or corrupt.

8.2. **Going beyond red flags – audit testing**

The audit team should engage in audit testing to identify and obtain further evidence to support the conclusions made at the planning stage regarding the risks of fraud and corruption. Further testing of strong controls should be carried out as described in section 7.4 above to confirm their proper functioning throughout the period of the emergency. In areas where the decision has been taken not to rely on internal controls, samples of transactions for the purposes of substantive testing can be drawn. The following are examples of the types of testing SAI auditors may consider to address the risks of fraud and corruption. They are by no means intended to be exhaustive.

- Performing substantive analytical procedures on funds paid to local offices and organisations. For example comparing data reported by month or by action to the information available at the central level.
- Examining the terms of financing contracts/agreements and making sure there are no unauthorised subsidiary agreements, for example between NGOs and local agencies.
- Examining inventory records held centrally to identify locations or items that require specific attention.
- Documenting, observing and re-performing inventory procedures (entry/exit of goods, "lost" items, stocktaking and physical checks).
- Visiting warehouse locations to check inventory or stocks without prior warning.
- Performing cash counts at local offices or checking bank accounts on a particular date without prior warning.
- When observing stock takes or inventory checks, perform additional procedures, such as examining the contents of boxed items, the manner in which the goods are stacked (see "doughnut scam" example in part 3, section H) or labelled and the quality (purity, grade or concentration). Using the assistance of an expert may be helpful in this regard.
- Using external sources or an independent expert to compare prices and costs reported.

- Searching payroll records to identify duplicate addresses, employee identification or tax authority numbers or bank accounts (where available, data mining techniques are useful in this respect).
- Comparing employee numbers to the number which would be reasonably be expected to carry out the work.
- Contacting major contractors and/or donors orally in addition to sending written confirmation and sending requests to other organisations for external confirmation of audit evidence.
- Performing substantive analytical procedures on expenditure declared, for example, comparing logistical costs and aid delivered by location or month, to each other and to expectations developed by the auditor.
- Interviews of staff to discuss specific risks and whether or how, controls address these risks.
- Conducting interviews with a disaggregated sample set of beneficiaries using surveys informing them of their entitlements and asking whether they received them.[82]
- Taking contract specifications for emergency housing and checking that the quantity and quality of the accommodation provided is what was paid for.
- Discussing the outcome of audits carried out by other independent auditors on the same, related or similar organisations, agencies, field offices, etc.
- Examining procedures for restricting physical access to accounting or other record keeping systems.
- Examining large and unusual expenses, extraordinary accounting entries and cancelled operations.

When carrying out substantive testing the audit team may find it appropriate to examine cases communicated to them via fraud hotlines or by informal means. The appropriateness of doing this depends on the mandate of the SAI and the audit approach adopted.

8.3. **Audit evidence**

In the normal conduct of an audit, the auditor should obtain **sufficient and appropriate evidence** to support the conclusions of the audit. Sources of evidence are typically documents presented by staff in support of recorded transactions, internal auditor reports, interviews, inspections and observations, questionnaires, documents from external sources, results of analytical reviews and expert opinion. The auditor should design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate

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[82] This should include women, men, children, boys and girls and consideration should be given to issues of age, vulnerabilities, gender and diversity. Issues of fraud, corruption and abuse are highlighted by organisations which have applied the 2010 HAP Standard through the implementation of the Information Sharing and Complaints Handling benchmarks http://www.hapinternational.org/pool/files/guide-to-the-2010-hap-standard-printer-friendly-version.pdf pages 34 to 37 and 42 to 47

audit evidence.[83]

When a high risk of fraud and corruption is present, SAI auditors of emergency relief aid may need to reconsider the reliability of audit evidence already collected and to seek confirmation in other ways. Before doing so, the audit team must be aware of the access rights of the SAI and up to what point evidence of suspected cases of fraud and corruption can and should be pursued. Different SAIs have different rights of access. One way of approaching problems related to restricted access is to carry out joint audits between SAIs, for example by auditors of countries that have donated the disaster-related aid and the country where the disaster took place.

In cases where SAI mandates require auditors to stop audit work and hand the details over to the appropriate investigate or prosecuting authorities when there is suspicion of fraud or corruption, the audit evidence should be carefully collected together and clearly presented to those authorities. Some SAIs have the option of putting together teams including both auditors and investigators (where the investigators may be from within the SAI or from another branch of government).

In the context of the increased risk of fraud and corruption and the possibility of suspected cases of fraud and corruption, auditors should consider the appropriateness of the following types of evidence:

- *People as evidence:* this includes witnesses of wrongdoings, such as other staff working in the agency, victims such as members of the affected population who do not receive aid, whistle-blowers where there is a formal system for complaints or other informants where there is not, potential suppliers and contractors, government employees, police, expert witnesses and possibly others. People can supply strong and convincing evidence, but may not be forthcoming because of pressures on them from others. For example, a beneficiary may not tell the auditor that he has not received his quota of food aid because of threats by those who have taken his share or fear of reprisal by staff of the agency. Evidence should be taken from a cross section of people from the community and must be corroborated.[84]

- *Documents as evidence:* Documents are often used to conceal fraud. They can be altered, created, forged or destroyed. In an emergency situation documents may not be prepared in the usual way and SAI auditors must be prepared to question and maybe corroborate their accuracy. Where the SAI has authority to do so, documents should be sought from third parties.

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[83]   ISA 500/6

[84]   Consultation with affected communities is a central part of the HAP certification scheme since feedback is vital for measuring the accountability of humanitarian action. See http://www.hapinternational.org/pool/files/guide-to-the-2010-hap-standard-printer-friendly-version.pdf pages 42 to 47

- *Data mining:* Where possible auditors can use data mining techniques to verify beneficiaries registered. This involves comparing details on recipients of aid to other government or locally held databases.[85]

- *Physical Evidence:* In addition to inspections by SAI auditors themselves and observation of verifications carried out by others to confirm the existence and condition of items, additional physical evidence should be sought when fraud or corruption is suspected. In such situations the auditors should be constantly vigilant of signs such as broken locks, damaged packaging, apparently full containers concealing empty containers, broken seals, tyre tracks, footprints or fingerprints where there should be none or abused vehicles or premises.

- *Personal observation as evidence:* In some cases SAI auditors simply have to use their sense of observation and look for, listen to, touch or smell what may be an indicator of fraud or corruption. Personal observation corroborates other evidence collected.

There may be situations where the auditors are convinced that fraud or corruption has occurred, but can find no evidence of this. In the distribution of food following a disaster, for example, beneficiaries may report unofficially that they have received no or only partial rations, but they may refuse to go on record with this because they are worried about retribution against their families by powerful local elites or staff from the agency. Although in this case the auditors cannot report the actual event of corruption, they can indicate the existence of opportunities for corruption and suggest ways in which corrective action can be taken to minimise or diminish future opportunities for potential corruption.

8.4. Documentation

SAI auditors should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions.[86] This is especially important if suspected cases of fraud and corruption may be followed up by investigative or law enforcement authorities. The following stages should be clearly documented:

- The discussions and conclusions regarding the increased risk of fraud and corruption and where those risks lie.
- The procedures performed to obtain the information necessary to identify and assess the risks of fraud and corruption.

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[85] See for definition http://www.theiia.org/ITAuditArchive/?aid=2313&iid=484
[86] ISSAI 1230/P3

- Specific fraud and corruption risks that were identified and the response of the audit team to those risks.
- The results of the procedures performed to address the risk of staff in positions of responsibility overriding controls.
- Other reasons leading to the decision to adapt audit procedures for the increased risk of fraud and corruption, the procedures adapted and carried out and the results of the audit work.
- The nature of communications made by auditors regarding the risk of fraud and corruption and the audit work carried out.

9. Reporting

At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form.[87] The way in which the results of the audit are presented depends on the mandate of the SAI, the audit objectives and approach adopted. Following the detection of suspected cases of fraud and corruption during a financial statement audit, the SAI may issue a qualified audit opinion with findings reported in the audit report.[88] Requirements for reporting fraud, whether or not discovered through the audit process, often may be subject to specific provisions of the audit mandate or related legislation or regulations. Where cases of fraud and corruption are suspected, reference should only be made if in conformity with the policy of the SAI. However, the terms "fraud" and "corruption" should never be used in a conclusive sense unless confirmed by a court of law.

Whether or not individual cases of suspected fraud and corruption are detected, SAIs' mandates include the requirement to report on the increased risks of fraud and corruption. The report should include any risks thus revealed during audit work on the emergency response phase of disaster-related aid. Weaknesses revealed in detective and preventive controls can lead SAIs to propose improvements which can be taken up by governments in preparing for the event of future disasters.

Where the audit team has strong evidence to indicate that fraud or corruption has occurred the terms of the mandate of the SAI may require it to communicate the information to an investigative unit within the SAI, to other government investigative authorities, to law enforcement bodies or supervisory bodies or to the governments or organisations who have provided the initial funding. In other cases the SAI can extend its own work or initiate a special investigation alongside the statutory audit.

The high profile nature of disaster-related emergency relief aid, the fact that aid is often donated and the potentially life-threatening consequences of aid diversion render suspected cases of fraud and corruption in this area especially sensitive. The media, civil society organisations, aid agencies, the public and foreign governments will display interest in any suspicions of the SAI of which they become aware. It is important that confirmed cases of fraud and corruption are made public as a

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[87]   ISSAI 400/7
[88]   The auditor may also issue an adverse opinion or a disclaimer, see ISSAI 400/14 and 15

deterrent to potential future perpetrators and to reassure donors that cases of fraud and corruption are revealed. However, the SAI should exercise caution in treating unconfirmed cases of fraud and corruption. The audit team should reconfirm all the facts about the cases which will be included in the SAI report and make sure all the evidence is sufficient and appropriate.

In all cases, communicating and reporting the results of the audit work should be appropriate; easy to understand; free from vagueness and ambiguity; include only evidence that is supported by competent and relevant audit evidence; and be accurate, objective and timely. The report should be drafted using the clearest language and it should be issued in a timely fashion in order to make corrective actions possible.

The role of the SAI as a deterrent to potential perpetrators of fraud and corruption depends on the extent to which SAI reports including suspected cases of fraud and corruption or recommendations for improvements in preventive and detective controls are actively followed up on. Where proper follow up is not provided, SAIs may consider it necessary to increase the effectiveness of their own follow-up activities.

Annex 1
Corruption Risk Assessment Questions

These examples of the questions SAI auditors can ask when seeking to obtain information on the degree of risk of fraud and corruption in the environment of the audit were prepared by Transparency International and the U4 Anti-Corruption Centre. See part 4 of this guidance, paragraph 7.2.

- What is the role of the disaster-affected government in the relief process?
    - o Is it involved in direct implementation?
    - o If so, which part of government is involved (the military, local government)?
    - o What are their strengths and weaknesses, and what particular risks arise?
    - o What, if any, regulatory or coordinating role is the government playing?
- Do anti-corruption agencies exist, and if so are they examining the relief response?
- How well is the judiciary functioning?
    - o If relief personnel were found to be corrupt would legal action be possible?
- What is the level of scrutiny of the international and national media of the relief process (international media attention may be more likely to influence international aid actors)?
- How does governance work at local levels?
    - o What roles are played by local authorities and other local elites, such as chiefs and tribal leaders?
    - o How do local norms and understanding about the nature of need, poverty and vulnerability influence local understandings of the acceptability and fairness of targeting criteria?
- How well do disaster-affected populations understand what relief they are entitled to, which organisations are responsible for assisting them and how to complain if corrupt abuse is going on?
- What transparency measures are in place?
- What is the degree of participation of disaster-affected populations in the planning, implementation, monitoring and evaluation of relief provision?
- Are there effective complaint mechanisms in place for disaster-affected populations?
- What were the pre-crisis levels of corruption?
- What information is available to help map types of corruption risks (examples might include the TI index, opportunities to meet with local anti-corruption or human rights actors and meetings with government anti-corruption units)?
- What is the political and economic background to the crisis (particularly in conflicts)?
- How do the warring parties sustain and finance their operations?
- To what extent is relief likely to be a target for diversion?
- What are the main humanitarian actors in the crisis?
- Is the response dominated by international or national actors?
- How many international relief organisations are operating?
- How strong is the coordinating role being played by the United Nations?
- What funding models are operating?
- Are most international agencies implementing directly, or working through local partners?
- Is most funding from bilateral donors, or is most raised directly from the general public?
- How long have international actors been working in the country, and how well do international staff understand the local economic, social and political contexts in which they are operating?
- What are the features of national civil society?

- How strong, effective and accountable are national NGOs involved in the relief response?
- What is the focus of the relief response (food aid, shelter, health, nutrition) and what are the particular risks associated with each sector?
- Within organisations, what internal policies and procedures are in place regarding corruption?
- Is there an anti-corruption or ethics policy?
- Is there a procedure for whistle-blowers?
- What measures are taken to ensure that such policies (including those related to sexual exploitation) are widely understood and openly discussed within the agency, and between the agency and its partners?
- How robust and effective are finance, human resources, administrative, logistics and procurement procedures within organisations?
- Are human resource systems in place to provide additional capacity for rapid recruitment at the onset of a crisis?

Annex 2
Acronyms

ECOSAI – Economic Co-operation Organisation Supreme Audit Institutions

FEMA – Federal Emergency Management Agency. The FEMA is an agency of the United States Department of Homeland Security. The agency's primary purpose is to coordinate the response to a disaster that has occurred in the United States and that overwhelms the resources of local and state authorities.

GAO – Government Accountability Office. The GAO is the audit, evaluation, and investigative arm of the United States Congress. It is part of the legislative branch of the United States Government.

GRECO - Group of States Against Corruption. The GRECO was established in 1999 by the Council of Europe to monitor States' compliance with the organisation's anti-corruption standards.

HPG – Humanitarian Policy Group. HPG Working Papers present case studies or background notes which support key aspects of the Group's research projects.

IFAF – Integrated Financial Accountability Framework. See INTOSAI GOV 9250 at http://www.issai.org/composite-194.htm

INCOSAI – International Congress of the SAI's

INTOSAI GOV – INTOSAI Guidance for Good Governance

INTOSAI GOV 9250 – The IFAF : guidance on improving information on financial flows of humanitarian aid.

INTOSAINT - A Tool to Assess the Integrity of Supreme Audit Institutions

ISSAI – International Standards of Supreme Audit Institutions. These Standards are issued by the INTOSAI.

NAO – National Audit Office.

NGO – Non Governmental Organisation

NIS – National Integrity System

ODI – Overseas Development Institute. The ODI is the United Kingdom's leading independent *think tank* on international development and humanitarian issues. ODI Working Papers are reports presenting results of ODI research in preliminary form for discussion and comment.

OECD – Organisation for Economic Co-operation and Development

OLAF – European Anti-Fraud Office

SAI - Supreme Audit Institution

UNCAC – United Nations Convention Against Corruption

UNHCR – United Nations High Commissioner for Refugees

UNISDR – United Nations International Strategy for Disaster Reduction

UNDP - United Nations Development Programme

UN OCHA - United Nations Office for the Coordination of Humanitarian Affairs

URUGUAY ACCORDS 1998 – INTOSAI members agreed to "focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators and to "intensify the exchange of experiences on fraud and corruption with other SAIs".

WFP – World Food Programme

Annex 3

Glossary

(This glossary does not repeat terms defined in the ISSAI 1003, Glossary of terms to the INTOSAI Financial Audit guidelines).

Aid: Voluntary transfer of resources from one country to another.

Anti-fraud and corruption strategy: Outlines the commitment to minimising the risk of loss to the organisation resulting from fraud and corruption.

Audit procedures: Techniques used by the auditor in gathering audit evidence to substantiate the conclusions of the audit. Examples of audit procedures in financial audit are observing assets to verify existence and amount, collecting independent confirmations from external parties and evaluating internal control. Audit procedures are indicated in the audit programme.

Audit process: An audit process is a review of an entity's operating mechanisms in line with the applicable laws, regulations and standards. It follows a sequential order of steps by the auditor in the examination of the records. The audit process may vary depending upon the nature of the engagement, its objectives, and type of audit assurance desired. The process includes understanding the environment, conducting auditing procedures and tests, appraising the audit results, and communicating the results to interested parties.

Bilateral aid: Aid provided directly by a donor to an aid recipient country.

Collusion: A secret agreement between two or more individuals for a deceitful or fraudulent purpose. This is one of the most difficult types of fraud to expose.

Co-ordinated audit: A co-ordinated audit is either a joint audit with separate audit reports to the SAIs own hierarchy or legislature or a parallel audit with a single audit report in addition to the separate national reports.

Corruption: The abuse of entrusted power for private gain. Corruption usually comprises illegal activities, which mainly come to light only through audits, investigations, scandals or prosecutions.

Deterrent: Fraud and corruption deterrence is the proactive identification and removal of the causal and enabling factors of fraud and corruption. Visible activity by auditors can act as a deterrent to potential perpetrators of fraud and corruption.

Development aid: Official financing administered with the promotion of the economic development and welfare of developing countries as the main objective.

Disaster: A serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources.

Disaster-related aid: Aid provided to help people, who are victims of a natural disaster or conflict, meet their basic needs and rights. The aid can be to fund disaster-preparedness measures or activities arising as a consequence of disasters.

Disaster management: The systematic process of using administrative decisions, organization, operational skills and capacities to implement policies, strategies, and coping capacities of the society and communities to lessen the impacts of natural hazards and related environmental and technological disasters. This comprises all forms of activities, including structural and non-structural measures to avoid (prevention) or to limit (mitigation and preparedness) adverse effects of hazards, and to bring back life (rehabilitation and reconstruction)

Disaster management cycle: Shows the sequence of events related to the organisation and management of resources and responsibilities for dealing with all humanitarian aspects of

emergencies in order to lessen the impact of disasters. It comprises a pre-disaster phase and a post-disaster phase, including activities of mitigation, preparedness, emergency response/relief, rehabilitation, and reconstruction.

Disaster risk: The potential disaster losses, in lives, health status, livelihoods, assets and services, which could occur to a particular community or a society over some specified future time period.

Disaster risk reduction: The concept and practice of reducing disaster risks through systematic efforts to analyse and manage the causal factors of disasters, including through reduced exposure to hazards, lessened vulnerability of people and property, wise management of land and the environment, and improved preparedness for adverse events.

Donor: Party which donates money, goods, or services voluntarily.

Emergency: A serious situation or occurrence that happens unexpectedly and demands immediate action.

Emergency aid: See definition of humanitarian aid.

Emergency phase: The phase immediately following the occurrence of a disaster. It covers emergency response and relief activities and the first rehabilitation activities. It can last from a few days to several months, depending on the nature of the disaster and on the circumstances and type of the disaster.

Emergency relief: Financial assistance, goods or services made available to individuals and communities that have experienced losses due to disasters.

Emergency response: The efforts made to mitigate the impact of a disaster on the population and the environment.

Ex-post control: The audit carried out by SAIs or other statutory external auditors of the accounting records, the underlying transactions and/or issues of economy, efficiency and effectiveness of the use of aid.

Fraud investigation: Process followed to determine whether fraud has taken place and to gather evidence if fraud has occurred.

Humanitarian aid: Humanitarian aid' is aid and action designed to save lives, alleviate suffering and maintain and protect human dignity during and in the aftermath of emergencies. The characteristics that mark it out from other forms of foreign assistance and development aid are that it is intended to be governed by the principles of humanity, neutrality, impartiality and independence and it is intended to be short-term in nature.

Individual disaster response: The primary actions taken immediately by those on the ground following the disaster to secure the safety of individuals, including rescue, the administration of first aid and the provision of emergency supplies.

Joint audit: A coordinated audit in which key decisions are shared. The audit is conducted by one audit team composed of auditors from two or more autonomous auditing bodies who usually prepare a single joint audit report for presentation to each respective hierarchy or legislature.**Man-made disaster:** A disaster that is caused by man-made hazards, such as negligence, or failures in the system.

Mitigation: The lessening or limitation of the adverse impacts of hazards and related disasters.

Multilateral aid: Aid channelled via an international organisation active in development (e.g. World Bank, UNDP) to an aid recipient country.

National Integrity System: The sum of all our institutions, laws, and efforts in stopping corruption.

Natural disaster: A disaster that is caused by natural hazards, for example earthquakes, tsunamis, volcanic eruptions, flooding, crop failure, etc.

Parallel audit: A coordinated audit for which the decision is taken to carry out similar audits with shared methodology and audit approach. The audit is conducted more or less simultaneously by two or more autonomous auditing bodies, but with a separate audit team from each body, usually reporting only to its own hierarchy or legislature and only on matters within its own mandate.

Preparedness: The knowledge and capacities developed by governments, professional response and recovery organizations, communities and individuals to effectively anticipate, respond to, and recover from, the impacts of likely, imminent or current hazard events or conditions.

Prevention: The outright avoidance of adverse impacts of hazards and related disasters.

Reconstruction phase: The phase during which populations work towards full resumption of services plus preventive measures.

Recovery: The restoration, and improvement where appropriate, of facilities, livelihoods and living conditions of disaster-affected communities, including efforts to reduce disaster risk factors.

Red flags: Indicators or warning signs of fraud and corruption.

Rehabilitation phase: The restoration of basic services and functions which begins shortly after disaster strikes and continues until the reconstruction phase is underway.

Response: The provision of emergency services and public assistance during or immediately after a disaster in order to save lives, reduce health impacts, ensure public safety and meet the basic subsistence needs of the people affected.

Sources: This glossary was compiled from the following main sources:
- ✓ *UNISDR Handbook on terminology:*
  http://www.unisdr.org/files/7817_UNISDRTerminologyEnglish.pdf
- ✓ *OECD glossary of Statistical terms: http://stats.oecd.org/glossary*
- ✓ *OECD-DAC Glossary of key term and concepts:*
  http://www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html
- ✓ *IFAC Handbook Glossary of Terms:*
  http://www2.accaglobal.com/library/technical/auditing/intstandards/2473361