



## INTERNAL AUDIT DIVISION

### REPORT 2014/051

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Audit of the process of reporting cases of fraud or presumptive fraud in financial statements

Overall results relating to the completeness and accuracy of reporting cases of fraud or presumptive fraud in financial statements were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

26 June 2014  
Assignment No. AH2013/511/03

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# **AUDIT REPORT**

## **Audit of the process of reporting cases of fraud or presumptive fraud in financial statements**

### **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the process of reporting cases of fraud or presumptive fraud in financial statements.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. According to the annex to the Financial Regulations and Rules of the United Nations, the Board of Auditors was required to bring to the notice of the General Assembly, in their report on the financial statements, cases of fraud or presumptive fraud that occurred during the reporting period. This information was disclosed as a note to the audited financial statements, based on information collated and submitted by the Office of the Controller in the Office of Programme Planning, Budget and Accounts (OPPBA). It was reported biennially in the financial statements for non-peacekeeping entities (United Nations Headquarters, Offices away from Headquarters, Regional Commissions, Tribunals and Special Political Missions), and annually in the financial statements for peacekeeping missions.
4. In August 1985, the then Controller of the United Nations issued a memorandum on the procedure (the 1985 Procedure) to be followed for reporting cases of fraud or presumptive fraud involving the improper use of funds. According to the memorandum, Executive Officers and Administrative Officers, who were directly accountable to the Controller in the application of financial rules and related procedures, were required to report cases of fraud or presumptive fraud to the Controller and also forward their reports to OIOS and heads of the respective offices. The same requirement was also in the Field Finance Procedure Guidelines, the Finance and Budget Manual, and the year-end closing instructions sent out by the Accounts Division, OPPBA.
5. Table 1 provides a summary of cases of fraud or presumptive fraud reported to the Board of Auditors by OPPBA for the periods under review:

**Table 1: Cases of fraud or presumptive fraud reported to the Board of Auditors**

<b>Category</b>	<b>Financial statement period</b>	<b>Number of cases reported</b>	<b>Total amounts involved (US\$)</b>
<b>Non-peacekeeping entities</b>	1/1/2010 - 31/12/2011	9	66,385
<b>Peacekeeping missions</b>	1/7/2010 - 30/6/2011	12	308,436
	1/7/2011 - 30/6/2012	11	164,867
	1/7/2012 - 30/6/2013	28	81,647
<b>Total peacekeeping missions</b>		51	554,950

Sources: A/67/5(Vol. I), A/66/5(Vol. II), A/67/5(Vol. II) and A/68/5(Vol. II).

6. Comments provided by the Department of Management (DM) are incorporated in *italics*.

## **II. OBJECTIVE AND SCOPE**

7. The audit of the process of reporting cases of fraud or presumptive fraud in financial statements was conducted to assess the adequacy and effectiveness of OPPBA governance, risk management and control processes in providing reasonable assurance regarding the **completeness and accuracy of the reporting of cases of fraud or presumptive fraud in the financial statements**.

8. The audit was included in the 2013 OIOS risk-based work plan due to the risk that information reported on cases of fraud or presumptive fraud may be incomplete and/or inaccurate.

9. The key controls tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as the controls that provide reasonable assurance that adequate policies and procedures: (i) exist to guide the reporting of cases of fraud or presumptive fraud; (ii) are applied consistently; and (iii) ensure the completeness and accuracy of the reported cases.

10. The key control was assessed for the control objectives shown in Table 2. One control objective (shown in Table 2 as “Not assessed”) was not relevant to the scope defined for this audit.

11. OIOS conducted this audit from October 2013 to January 2014. The audit covered activities relating to reporting cases of fraud or presumptive fraud by non-peacekeeping entities for the biennium 2010-2011 and by peacekeeping missions for three fiscal years from 1 July 2010 to 30 June 2013.

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

13. The audit team reviewed relevant policies and procedures relating to compiling, validating and submitting to OPPBA reports on cases of fraud or presumptive fraud by the United Nations missions, offices and departments, as well as the compiling of the final reports by OPPBA for submission to the Board of Auditors. The audit team interviewed key personnel from the Investigations Division of OIOS,

Office of Human Resources Management (OHRM), Executive Office of DM, Department of Field Support (DFS), and United Nations Offices at Geneva and Nairobi. To assess the awareness of the requirement to report cases of fraud or presumptive fraud to OPPBA and the processes put in place for collating such reports by entities across the Secretariat, the audit team also administered a survey to the Office for the Coordination of Humanitarian Affairs, Economic Commission for Latin America and the Caribbean, Economic Commission for Africa, United Nations Organization Stabilization Mission in the Democratic Republic of the Congo, United Nations Hybrid Operation in Darfur, United Nations Office in Burundi and United Nations Integrated Peacebuilding Office in Sierra Leone. The audit team further analyzed the cases reported by the entities for the periods under review and reconciled them with those reported by the Investigations Division of OIOS to OPPBA.

### III. AUDIT RESULTS

14. The OPPBA governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the **completeness and accuracy of the reporting of cases of fraud or presumptive fraud in the financial statements**. OIOS made four recommendations to address issues identified in this audit. Existing guidelines on fraud were fragmented and did not provide adequate guidance to responsible officers to assist them in determining which cases to report to OPPBA and when. There was therefore a need to finalize and promulgate a comprehensive anti-fraud policy. A coordination mechanism was needed between OPPBA and other offices responsible for receiving reports on wrongdoing to ensure completeness of reported cases. OPPBA also needed to develop a mechanism to improve responsiveness and timeliness of reporting by various entities and to institute review processes to ensure the completeness and accuracy of information on the reported cases. OPPBA accepted but is yet to initiate the necessary steps to implement the audit recommendations.

15. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations remains in progress.

**Table 2: Assessment of key controls**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
<b>Completeness and accuracy of the reporting of cases of fraud or presumptive fraud in the financial statements</b>	Regulatory framework	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## **Regulatory framework**

### Existing policies and procedures were fragmented and did not provide adequate guidance for identifying and reporting fraud

16. Numerous policies and procedures constituting components of the overall accountability framework of the Organization touched upon fraud, but there was not a single policy that had comprehensive coverage of the subject. One collective weakness of these policy documents was the lack of a definition of fraud or presumptive fraud that was formalized and circulated across the Organization. OIOS, in its List of Key Oversight Terms, provided a definition of fraud, but it was not formally adopted outside of the Office. The Controller's 1985 Procedure only loosely defined the scope of cases of fraud or presumptive fraud to be reported to OPPBA as cases involving "improper use of funds". The scope was expanded to include "improper use of property" in a 2012 memorandum from the Controller to non-peacekeeping entities regarding reporting for the 2010-2011 biennium.

17. Furthermore, a set of criteria was absent to assist responsible officers to determine what and when to report to OPPBA. Although OPPBA stated in the cover notes of each report on cases of fraud or presumptive fraud submitted to the Board of Auditors that "cases should be reported where a preliminary review of evidences gives ground to suspect fraud but not on the basis of unsupported allegations", this information was not included in communications to the reporting entities.

18. Without adequate guidance, staff members and managers had different understandings and interpretations, possibly resulting in over or under reporting of fraud. For instance, some officers interviewed/surveyed during the audit stated that simple thefts should not be classified and reported as fraud or presumptive fraud, contrary to the position of OPPBA and some field missions. Different opinions were also presented regarding whether existence of fraudulent intent, involvement of staff and financial loss to the United Nations should serve as prerequisites for a case to be reported as fraud or presumptive fraud. The nature of some of the cases reported during the audited period further manifested the lack of adequate guidance and the resultant inconsistent practices in reporting different types of cases to OPPBA. For example, some entities reported cases of theft, misrepresentation and human error to OPPBA, while others did not.

19. Entities were also required to give an estimate of the amount involved in the reported cases; however, it was unclear whether this was related to the loss suffered by the Organization or the actual or potential gain by the party that committed the fraud or presumptive fraud. Reporting entities' estimates were based on either scenario, although an amount was often not specified, especially for cases that were still under investigation at the time reporting to OPPBA.

20. Finally, some officers interviewed also pointed out the lack of comprehensive guidance on other aspects of fraud such as prevention, detection and handling of potential cases, etc. The fragmented nature of existing guidance may have contributed to this perception. Therefore, there was a need for a comprehensive policy on fraud that consolidates existing policies and procedures to provide easy access to all staff members.

21. The United Nations Secretariat had already taken actions in developing an overarching policy on fraud. In 2006, the Secretariat recognized that a series of guidelines with supporting instructions had already been established, but none of them addressed the whole range of issues surrounding fraud prevention and corruption. Following a recommendation by the Board of Auditors, the Secretariat started consolidating these into a stand-alone, comprehensive anti-fraud and corruption policy. A Working

Group on Fraud Prevention, under the leadership of the then Controller, drafted a policy with input from the United Nations Funds and Programmes. However, the policy was yet to be finalized.

**(1) DM should, in consultation with other departments and offices, finalize the policy on fraud to provide comprehensive and easily accessible guidance to all parties on all aspects of fraud.**

*DM accepted recommendation 1 and stated that it will consult with other departments and offices and finalize the policy on fraud. Recommendation 1 remains open pending submission of a final anti-fraud policy.*

Need to establish a mechanism to ensure complete reporting on cases of fraud or presumptive fraud

22. Organizations should internally communicate information necessary to support the functioning of internal control.

23. OPPBA cited the lack of sources to benchmark information received on cases of fraud or presumptive fraud as a major obstacle in determining and achieving completeness of cases reported to the Board of Auditors. Two offices that could provide information for cross-checking were OIOS and OHRM. The Investigations Division of OIOS had the mandate to investigate fraud, especially complex cases and fraudulent entitlement claims. The Administrative Law Section of OHRM received final reports on investigations conducted by various entities on all types of misconduct cases, including fraud, for disciplinary actions.

24. In this connection, for the year ended 30 June 2013, the Investigations Division for the first time submitted a report on cases of fraud or presumptive fraud at peacekeeping missions that were reported to the Division. However, the report was not in the format requested by OPPBA and in some instances, did not provide detailed information on the cases. Only 4 of the 38 cases predicated by the Investigations Division during the year were also reported by the missions to OPPBA. This was partially attributable to the fact that existing guidelines gave staff members the option to report wrongdoing directly to OIOS and the cases might not have been known to the missions.

25. OPPBA found it difficult to reconcile the cases provided by the Investigations Division with those reported by the missions due to the lack of sufficient common details or a common identifier such as a case number. Hence OPPBA did not incorporate the additional cases reported by OIOS into the final report submitted to the Board of Auditors.

26. The Administrative Law Section of OHRM confirmed at the time of the audit that there was no coordination mechanism between OHRM and OPPBA to share information on cases of fraud or presumptive fraud reported to the Section. It provided the audit team with a complete list of misconduct cases referred to it during the period 1 January 2010 to 30 June 2013. The list included 195 cases in the categories of fraud, misrepresentation, theft, misappropriation and misuse of property, compared to the 60 cases of similar nature as reported by OPPBA to the Board of Auditors. This indicated that it was possible that some relevant cases referred to OHRM were not captured by OPPBA. In addition, the audit team reviewed the annual reports of the Secretary General on disciplinary actions for the period from 1 July 2010 to 30 June 2013 and noted three specific cases that should have also been reported to OPPBA.

**(2) OPPBA should, in coordination with OIOS and OHRM, establish a mechanism to collect and reconcile information on cases of fraud or presumptive fraud to enable OPPBA to enhance the completeness of the report that it compiles and submits to the Board of Auditors.**

*OPPBA accepted recommendation 2 and stated that it will develop a coordination mechanism to share information with OIOS and OHM within current procedures. Recommendation 2 remains open pending submission of evidence that coordination mechanisms have been established with OIOS and OHRM to share information on cases of fraud or presumptive fraud.*

Need to improve responsiveness to requests of OPPBA and the timeliness of reporting by entities

27. The memorandums sent out by OPPBA to departments, offices and missions at the end of the fiscal years specifically required the entities to provide affirmative confirmation if there were no cases to report for a cycle. OPPBA reminded by e-mails those entities that initially did not respond to its requests. After failed attempts, OPPBA simply stated in the final report which entities did not respond. It was noted that four to six entities did not respond to OPPBA during each reporting cycle.

28. Such lack of responsiveness was coupled with instances of failure to report cases that had occurred and delays of reporting for over a year. Consequently, not only was the submission of the reports to the Board of Auditors delayed, the reliability of the final report and the subsequent disclosure in the financial statements were undermined.

29. Notwithstanding the stipulation in the 1985 Procedure that officers who failed to timely report to OPPBA cases of fraud or presumptive fraud may be personally held accountable, OPPBA indicated that it did not have adequate leverage to enforce the provision in reality. There was also no evidence that OPPBA escalated the issue to senior management of the concerned entities or solicited the assistance of DFS in obtaining the responses.

**(3) OPPBA should develop a procedure to engage DFS and senior management of other entities that do not comply with the requirement to report cases of fraud or presumptive fraud to improve the completeness of the information submitted to the Board of Auditors.**

*OPPBA accepted recommendation 3 and stated that it will establish a procedure with DFS and senior management of entities to improve the completeness of the information submitted to the Board of Auditors. Recommendation 3 remains open pending submission of the procedure developed to engage DFS and senior management of entities that do not comply with the requirement to report cases of fraud or presumptive fraud.*

Need to strengthen controls on completeness and accuracy of information provided for the reported cases

30. A standard form was used by OPPBA to obtain detailed information about the cases reported. As OPPBA did not have other sources of information, it relied on the reporting entities for the completeness and accuracy of the information provided. OPPBA summarized the descriptions of all the cases into a tabular format in its submission to the Board of Auditors, together with the underlying forms. As OPPBA did not screen the cases, all the cases received were reported. In addition, unless the form was not provided, OPPBA did not question why information provided was incomplete.

31. In general, the form was duly filled out by the reporting entities for the reported cases and OPPBA properly summarized the cases. However, some exceptions were noted. For instance, information was not always provided for “actions taken to remedy weakness in the system” and “amount involved”, when it was obvious, based on OIOS review, that remedial action could have been taken and the amount could be identified. In the report for the period 2011-2012, the total amount involved for the five theft cases reported by the Assistant Secretary-General of DFS for 2010-2011 was incorrectly tallied as



\$335,110 instead of \$253,362 as reported, which appeared to be an error carried over from the original report.

32. The reliability of the final report submitted to the Board of Auditors and its subsequent disclosure in the financial statements was negatively impacted due to incomplete and inaccurate information provided for reported cases.

**(4) OPPBA should institute review mechanisms to ensure the completeness and accuracy of information on the reported cases of fraud or presumptive fraud and provide feedback to the reporting entities on incomplete and/or inaccurate information provided.**

*OPPBA accepted recommendation 4 and stated that the institution of a review mechanism is dependent on the establishment of the reporting procedure discussed in the previous recommendation. Recommendation 4 remains open pending submission of evidence that review mechanisms have been instituted to ensure completeness and accuracy of information on the reported cases of fraud or presumptive fraud.*

#### **IV. ACKNOWLEDGEMENT**

33. OIOS wishes to express its appreciation to the Management and staff of the Department of Management for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja  
Assistant Secretary-General for Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the process of reporting cases of fraud or presumptive fraud in financial statements

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	DM should, in consultation with other departments and offices, finalize the policy on fraud to provide comprehensive and easily accessible guidance to all parties on all aspects of fraud.	Important	O	Submission of a copy of the final anti-fraud policy.	31 December 2015
2	OPPBA should, in coordination with OIOS and OHRM, establish a mechanism to collect and reconcile information on cases of fraud or presumptive fraud to enable OPPBA to enhance the completeness of the report that it compiles and submits to the Board of Auditors.	Important	O	Submission of evidence that coordination mechanisms have been established with OIOS and OHRM to share information on cases of fraud or presumptive fraud.	31 December 2014
3	OPPBA should develop a procedure to engage DFS and senior management of other entities that do not comply with the requirement to report cases of fraud or presumptive fraud to improve the completeness of the information submitted to the Board of Auditors.	Important	O	Submission of the procedure to engage DFS and senior management of entities that do not comply with the requirement to report cases of fraud or presumptive fraud.	31 December 2014
4	OPPBA should institute review mechanisms to ensure the completeness and accuracy of information on the reported cases of fraud or presumptive fraud and provide feedback to the reporting entities on incomplete and/or inaccurate information provided.	Important	O	Submission of evidence that review mechanisms have been instituted to ensure completeness and accuracy of information on the reported cases of fraud or presumptive fraud.	31 March 2015

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

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

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

<sup>4</sup> Dates provided by DM in response to recommendations.

# **APPENDIX I**

## **Management Response**

TO: Ms. Carmen Vierula, Chief, New York Audit Service  
A: Internal Audit Division  
Office of Internal Oversight Services

DATE: 27 May 2014

THROUGH: Christian ~~Samuelson~~, Director  
S/C DE: Office of the Under-Secretary-General for Management

FROM: Mario ~~Baez~~, Chief  
DE: Policy and Oversight Coordination Service  
Office of the Under-Secretary-General for Management

SUBJECT: **Draft report on an audit of the process of reporting cases of fraud or presumptive fraud in financial statements (Assignment No. AH2013/511/03)**  
OBJET: **fraud in financial statements (Assignment No. AH2013/511/03)**

1. We are pleased to provide the comments of the Department of Management in response to your memorandum dated 7 May 2014 on the above subject in the attached Appendix I.
2. Thank you for giving us the opportunity to provide comments to the draft report.

14-01358  
27 May 2014

## Management Response

## Audit of the process of reporting cases of fraud or presumptive fraud in financial statements

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	DM should, in consultation with other departments and offices, finalize the policy on fraud to provide comprehensive and easily accessible guidance to all parties on all aspects of fraud.	Important	Yes	Director, OUSG/DM	31 December 2015	DM will consult with other departments and offices, and finalise the policy on fraud.
2	OPPBA should, in coordination with OIOS and OHRM, establish a mechanism to collect and reconcile information on cases of fraud or presumptive fraud to enable OPPBA to enhance the completeness of the report that it compiles and submits to the Board of Auditors.	Important	Yes	Deputy Controller, OPPBA	31 December 2014	OPPBA will develop the coordination mechanism to share info with OIOS and OHRM within current procedures.
3	OPPBA should develop a procedure to engage DFS and senior management of other entities that do not comply with the requirement to report cases of fraud or presumptive fraud to improve the completeness of the information submitted to the Board of Auditors.	Important	Yes	Deputy Controller, OPPBA	31 December 2014	OPPBA will establish a procedure with DFS and Senior management of entities to improve the completeness of the information submittal to BOA.
4	OPPBA should institute review mechanisms to ensure the completeness and accuracy of information on the reported cases of fraud or presumptive fraud and provide feedback to the reporting entities on incomplete and/or inaccurate information provided.	Important	Yes	Deputy Controller, OPPBA	31 March 2015	The institution of the review mechanism is dependent on the establishment of the reporting procedure above.

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

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