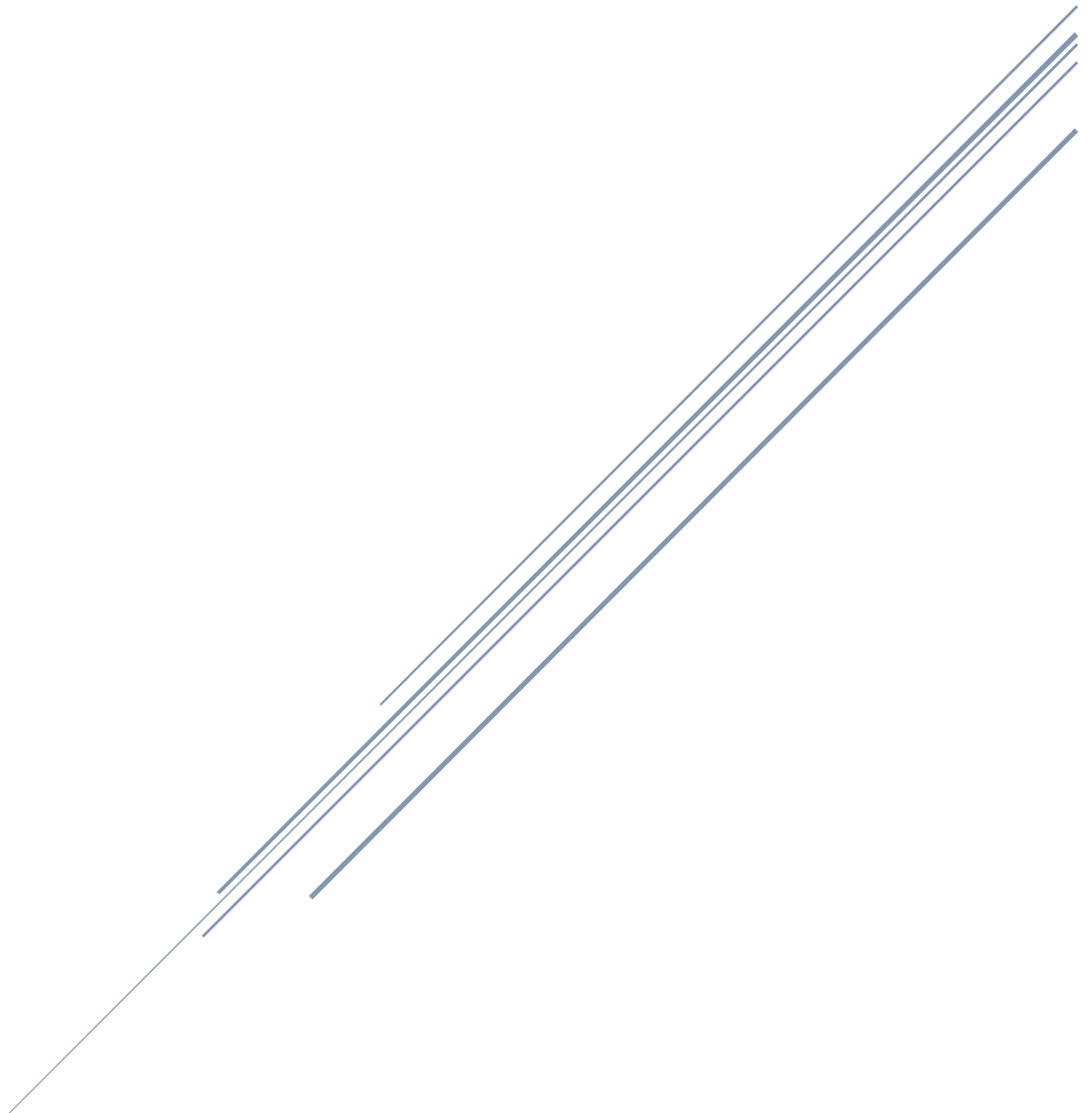


# REPORT OF THE WORKING GROUP ON DISASTER RELATED AID

## Review of pre-existing pronouncements

Final version as of 9 March 2018 – for the FIPP meeting 19-23 March 2018



# Report of the Working Group<sup>1</sup> on Review of pre-existing pronouncements – Disaster related aid

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## 1. Background

The Strategic Development Plan (SDP) for the INTOSAI Framework of Professional Pronouncements (IFPP), 2017-19 set up “Priority 2” to “provide improved INTOSAI guidance (GUID) that can better support audits in accordance with the ISSAIs” “as far as possible by 2019”. The overall objective of the review group is to “consolidate and align guidance on Disaster-related aid with ISSAI 100”. Any resulting pronouncements will be classified as GUIDs in the IFPP.

GUIDs provide guidance that supports the SAI in:

- ✓ Enhancing organizational performance in practice related to the organizational requirements and ISSAI implementation.
- ✓ Implementing mechanisms and programmes for competency development in line with the ISSAIs.
- ✓ Guidance pronouncements (GUIDs) provide guidance that supports the auditor in:
  - How to apply the ISSAIs in practice in the financial, performance or compliance audit processes.
  - How to apply the ISSAIs in practice in other engagements.
  - Understanding a specific subject matter and the application of the relevant ISSAIs.

### *Scoping the GUID on Disaster related aid*

Given the priority of the Strategic Development Plan (SDP) for the IFPP 2017-19 and the objective set for the review group on disaster related aid pronouncements, the immediate task for the review group is to produce a scoping paper on the project, *2.10. Consolidating and aligning the audit of disaster related aid with ISSAI 100* (SDP 2017-19). ISSAI 100 establishes fundamental principles which are applicable to all public-sector audit engagements, irrespective of their form or context and sets out framework, elements and principles of public sector auditing.

The existing / pre-existing ISSAIs 5500, 5510, 5520, 5530 & 5540 and GOV – 9250 IFAF are relevant pronouncements for consideration ‘to extract key messages, consolidate and make material operational in the context of financial, compliance and performance audits’. GUIDs need to preserve any valuable material contained in the pre-existing ISSAIs 5500 series by consolidating the relevant parts of the text into GUIDs.

By auditing pre-disaster activities / disaster risk reduction, emergency response and post-disaster aid and rehabilitation and reconstruction, Supreme Audit Institutions (SAIs) can help to limit the impact of disasters, to improve the effectiveness, economy and efficiency of aid. SAIs can also be helpful in relation with standard operating procedures aiming at ensuring accountability and transparency when *ex-ante* controls do not work in disaster emergency.

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<sup>1</sup> Please see annexe 1 for details on the members of the working group.

## ***2. Recommendations of the Review Group on Disaster related aid***

### **Recommendation 1 – development of a single GUID on disaster related aid audit**

The review group considers that there is a need and utility to keep and convert substantial parts of ISSAI 5500-5540 and relevant part of GOV 9250 into GUIDs. The review group considers the subject-matter of disaster related aid and issues related thereto – such as transparency and accountability in receipts, usage and reporting of aid in all stages of disaster management (pre-disaster preparedness, emergency response and relief and post-disaster rehabilitation and reconstruction), minimisation of risk of fraud and leakage of disaster related aid, and usage of remote sensing and geospatial and geographical information system (GIS) for disaster management – of continued relevance to all SAIs.

*Therefore, the review group recommends that a disaster related aid GUID should be developed. The GUID should cover audit of all aspects of disaster management namely, audit of pre-disaster preparedness, emergency response and relief and post-disaster rehabilitation and reconstruction and related aid as well as aspects of failure of ex-ante controls and risks of fraud and leakage and the use of GIS.*

*This would allow auditors to - (i) engage with specific aspect of disaster management for audit as well as in a holistic manner covering all stages in compliance or performance audit, and (ii) cover aspects of irregularity, leakage and fraud in compliance and financial audits and express opinion thereon.*

*The existing documents could be grouped into one single document - the text reworked and shortened to make the guidance practical for use by auditors. Additionally, the scope of the disaster related aid GUID could consider differentiating man-made, natural and mixed disasters and audit approach in such cases.*

### **Recommendation 2 – development of two separate, more generic, GUIDs on Fraud and the use of GIS**

ISSAI 5530 mainly concerns audit procedures in relation to fraud which is a topic not only related to disaster related aid. ISSAI 5540 concerns the use of geospatial information (GIS) in audits and is also a topic that is not only related to the audit of disaster related aid. The review group finds it relevant to use ISSAI 5530 as basis for developing a separate, but more generic GUID on fraud, and ISSAI 5540 as a basis for developing a separate, but more generic GUID on the use of GIS in audits.

However, risk of fraud in a disaster related scenario, when ex-ante controls may not work, could be higher than in usual circumstances. Similarly, use of GIS for pre-disaster preparedness, including preparation of Vulnerability Atlas and Hazard Map, emergency rescue and reliefs and post disaster rehabilitation and reconstruction could be significantly important in disaster management.

*Therefore, the review group recommends that separate, but more generic, GUIDs on fraud and the use of GIS in audits should be prepared. However, information on fraud and use of GIS specifically relevant for disaster management and disaster related aid should be retained in the proposed single GUID on disaster related aid audit – in a reworked, more streamlined form. The potential project groups established with the aim of developing the proposed separate GUIDs on fraud and GIS could eventually determine whether the information on fraud and GIS in the disaster related aid GUID should be reduced or removed and placed in the separate GUIDs on fraud and GIS to avoid undue duplication.*

*If it is decided not to develop separate GUIDs on Fraud and GIS, it is the recommendation of the working group to retain the information on fraud and GIS in the single GUID on disaster related aid.*

### **Recommendation 3 – transforming INTOSAI GOV 9250 (IFAF) into a GUID**

The review group considers that the INTOSAI GOV 9250 (Integrated Financial Accountability Framework, IFAF) which provides guidance on improving information on financial flows of humanitarian aid for compilation and reporting does not envisage or provide any role for the SAIs. GOV 9250 is a particular document, which could be transformed in a GUID. The role of SAI's in promoting this accountability framework to potential users could be clarified.

*Therefore, the review group recommends that it should be considered to transform GOV 9250 (IFAF) into a GUID. The GUID should clarify the role of SAI's in promoting this accountability framework and advise that auditors should examine the IFAF tables containing information regarding flow of humanitarian aid as part of the audit of the financial statements or any other audit engagement.*

**Caveat:** Though there are no categorical mandates in the International Public Sector Accounting Standards (IPSASs) regarding separate disclosure of humanitarian aid, *IPSAS 22: Disclosure of Financial Information about the General Govt. Sector* requires disclosure of grants as part of operating cash inflow and Cash Basis IPSAS requires disclosure of total cash receipts and payments to include grants, donations and aids. Cash Basis IPSAS: Encouraged Disclosures requires disclosure of source wise amounts and purpose for which external assistance including grants were received. As such, in case of public sector donors, first level recipients and implementing agencies, disaggregated information relating to humanitarian aid may not be easily available through the financial statements or the accounting system. More so, availability of disaggregated information as required by the IFAF tables from the entity's accounting system would be a function of availability of appropriate codes/sub-codes in the Chart of Account for this purpose.

### ***3. Need for a guidance document***

#### ***Why is there a need for a guidance document on audits of disaster related aid?***

To the question whether there is a need for a guidance document on audits of disaster related aid, a simple response would be *yes*. This is due to the following reasons:

- ✓ Disaster can strike anywhere, anytime and the human, environmental and economic impact of disasters (naturel or man-made) is considerable. The Centre for Research on the epidemiology of Disasters estimated in a 2015 report that, between 1994 and 2013, there were 6,873 natural disasters worldwide. Those claimed 1.335 million lives (68,000 on average annually). The UN, in its “Sendai Framework for Disaster Risk Reduction 2015-2030 estimates” indicates that, between 2005 and 2015:
  - The economic loss resulting from disasters was 1.3 trillion US dollars, and
  - Over 700,000 people lost their lives to disasters, 1.4 million were injured, 23 million were made homeless and 1.5 billion were affected in various ways.

- ✓ Humanitarian aid increases over the years, and amounted (according to Global Humanitarian Assistance reports) to USD 24.5 billion in 2014 compared to USD 17.1 billion in 2011. Governments net contribution and percentage to those amount also increased from USD 12.5 billion in 2011 (i.e., 73%) to USD 18.7 billion in 2014 (76.3 %).
- ✓ Governments, multi-lateral agencies, international financial institutions and non-government agencies spend huge sums on humanitarian aid to and rehabilitation of affected people and on re-building and reconstruction of infrastructure and public facilities affected by disasters.
- ✓ It is generally understood that in emergency response and disaster situations, ex-ante controls may not work and in the absence of standard operating procedures or weak institutional mechanism, financial management as well as delivery of relief and aid suffer.
- ✓ From auditors' perspective, auditing disaster management is not a routine activity, especially in the context of performance audit work (and compliance audits). The area can be complex, requiring specific knowledge from auditors for scoping the audit in terms of various stages of disaster management and response to disaster.

Disaster related aid GUID would certainly help in subject specific scoping of audit and combining the guidance with audit specific ISSAIs vis-à-vis ISSAIs on performance audit, compliance audit and financial audit and increasing the quality of the work undertaken.

#### ***Would a GUID on this topic be useful and used by SAI's?***

- ✓ More and more actions, as well as international initiatives (the Hyogo Framework for Action (HFA) 2005-15 and the Sendai Framework for Disaster Risk Reduction 2015-2030), are undertaken in relation with disaster risk reduction with implications in many domains of governments activities. This has an impact on auditors' activities.
- ✓ With the multiplication of disasters, more and more funds are used in this area hence more and more audit are being carried out (i.e. the European court of auditors audits on Crisis coordination mechanism (N° 33/2016) or on Climate action: ambitious work underway, but at serious risk of falling short (N° 31/2016).
- ✓ SAIs do not necessarily have the required expertise or specialised auditors or specific guidance developed by the respective SAI.
- ✓ It is important that SAIs play a role raising awareness on those issues (especially risk reduction) from both Governments as well as civil society. The cost effectiveness aspect of risk reduction actions is an important factor to be reminded (lives and money can be saved by greater preparedness).
- ✓ IDI-ASOSAI in 2015-17 completed a *3i Cooperative Audit Programme on Audit of Disaster Management* in which 12 SAIs (out of 17 SAIs that participated) completed and published audit reports on disaster management subjects. The experience of the programme suggest that handholding on technical aspects of disaster management for scoping and undertaking field audit and reporting would be useful for auditors. Various principles, frameworks, and tools available in ISSAIs 5500-5540 provided guidance to the SAIs in the programme.

#### ***4. What should be the key focus of the GUIDs?***

##### **A single GUID on disaster related aid audit**

A single GUID on disaster related aid audits should focus on:

- ✓ Disaster management related specific *concepts, frameworks and principles* relevant to various stages of disaster management cycle namely, (i) disaster mitigation, prevention and pre-disaster preparedness, (ii) relief, recovery and emergency response, (iii) post-disaster rehabilitation and reconstruction. This would be relevant and necessary for *scoping and planning* especially compliance and performance audit.
- ✓ Practical aspects on how to audit disaster related aid including within the specific context of aid flows from various sources, ex-ante controls either being weak or not working during emergency response, chances of leakage and fraud existing, GIS's application for damage and need assessment and gaps in relief, etc.

##### **A separate GUID on Fraud**

Fraud risk is not a topic specifically linked to disaster issues, even though this risk may indeed increase in certain circumstances such as emergency. It is a risk that auditors should assess in any audit and take into account more generally when carrying out any audit work. It does not seem appropriate to have separate GUID document solely dealing with this issue in relation with disaster.

The issue of fraud is mentioned in a number of existing ISSAI's: ISSAI 100, ISSAI 300 (the risk of fraud should be assessed in performance audits), ISSAI 400, and in INTOSAI 1240 – The auditor's responsibilities relating to fraud in an audit on financial statements and in the 3000 series (on performance audit work). It is a topic that is very often debated amongst auditors, who often face difficulties in coping with this issue. Often auditors raise questions to what extent they can and should deal with it. It is a transversal topic which, in our opinion, needs more attention and for which a GUID (specifically dedicated to fraud) is needed, covering all types of audit. The current ISSAI 5530 can feed in this new GUID specifically dedicated to fraud.

##### **A separate GUID on GIS**

Geographical Information Systems are increasingly used in relation with public spending. Examples are support paid to farmers based on land surface managed by a GIS system, environmental support measures, disaster management, etc. Auditors increasingly make use of these systems and of the modern technology thereon. As the examples show, GIS is not limited to disaster related management and aid. In our opinion, building on the experience of auditors, it would be very beneficial to share experience and provide guidance on a specific GIS GUID. It would however require additional work.

However, while fraud specific GUID and GUID on use of GIS should be prepared, they should include specific aspects of fraud and use of GIS relevant for disaster management and disaster related aid *or* cross-references to the relevant sections in the single GUID on disaster related aid audit.

## **A GUID on the Integrated Financial Accountability Framework**

INTOSAI GOV 9250 is a particular document because it provides for an accountability framework on humanitarian aid for providers and recipients of such aid. Thus, this document is addressed to a different public, but, if applied, it helps auditors to audit such aid. Also, it increases INTOSAI's credibility and exposure by providing a concrete and practical accountability tool.

The main question would be how such a particular document would fit or be presented amongst other GUID's. The role of SAIs should also be developed here. We suggest including it in a specific GUID, updating it where necessary and also including the role of a SAI in promoting it.

### ***5. Basis in the text***

*Which parts of the current text of the documents are of sufficient quality to be re-used, updated and/or edited?*

#### ***For a single GUID on disaster related aid:***

**ISSAI 5500:** The content of this ISSAI is general and introductory giving summary of the ISSAI series 5500 documents. The following relevant parts of the ISSAI 5500 could be integrated:

- ✓ Part 3 – Accountability for disaster related aid,
- ✓ Part 4 – Disaster management cycle, and
- ✓ Part 5 - Risk factors for auditors could be integrated in the Disaster related aid GUID.

**ISSAI 5510:** The following could be integrated:

- ✓ Part 1 – point 2 (Figure 1-disaster management cycle graph), point 4 (Governance framework for managing disaster risk reduction) and point 5 (Tools for auditing disaster risk reduction)
- ✓ Part 2 – point 6.1 (Issues for SAI to be updated), point 6.3 (risk of fraud), point 7.2 (disaster risk reduction awareness), point 8 (types of audit – to be summarised and updated and points 12-15 in ISSAI 5520 to be relevantly integrated), point 9 (Assessment of audit environment, 9.1/Figure 2 could be taken together with Part 1, point 2, Figure 1) and points 10.3 – 10.6 (audit approach, audit objectives and audit methodology – to be summarised and updated).
- ✓ Part 3 – Basis for an audit programme (to be edited and updated)
- ✓ Relevant/summarised Appendices

**ISSAI 5520:** The following could be integrated:

- ✓ Part 1 – points 3.11-3.13 including Table 1 (to be integrated with similar texts on pre-disaster activities and management)

- ✓ Part 2 and Part 3 – point 6 (features of disaster related aid for consideration of auditors) and point 7 (risk factors for disaster related aid). Figure 3 priority setting and design for audit in point 8.2 can be integrated with point 7. Further, point 11.3, III Risk Analysis-Table 3: Risk faced by key players in disaster related aid and IV Actions to mitigate risks, Table 4: Action taken to mitigate risks can be integrated with point 7.
- ✓ Relevant/summarised Appendices

### **ISSAI 5530**

The information in ISSAI 5530 that is unique to disasters could be included in a discussion of risks in the disaster related aid GUID.

### **ISSAI 5540**

The information on GIS that is strictly related to disaster related aid should be retained in a more streamlined format in the disaster related aid GUID.

#### ***For a GUID on Fraud:***

This could be a new GUID providing guidance to auditors on how to deal with fraud in the context of an audit. The following could be the basis:

- ✓ Part 2 - Auditing the increased risk of fraud and corruption and Part 3 – Risks and Red Flags of ISSAI 5530 (to be summarised and updated relevant for specific area of disaster related aid)
- ✓ Existing/pre-existing ISSAI 5700 – Audit of Corruption Prevention to be referred to.

#### ***For a GUID on GIS:***

Parts of the text (in part 3, 4 & 5 in ISSAI 5540) could be used in a new GUID which should be further developed to cover different types of audit and expenditure.

#### ***For a GUID on the Integrated Financial Accountability Framework:***

The information in INTOSAI GOV 9250 should be retained and complemented to highlight the role of SAIs in relation with IFAF (promoting its use, auditing). We have identified the following parts that could be used:

- ✓ Part 6
- ✓ Part 7
- ✓ Part 11
- ✓ Annex 4



## ***6. General assessment – how much work will this take?***

The following description provides a brief on works involved. Generally, refinement, re-working and updating will be required.

### ***For a single GUID on disaster related aid:***

ISSAI 5500: Since part of the text could be taken and refined, there may not be substantial work.

ISSAI 5510 - 5520: It would require work to summarise/update/refine the texts from the ISSAIs and insert it into the GUID to make it as practical as possible for auditors and possibly also to expand the scope to man-made and mixed disasters.

ISSAI 5530: To summarise,/update/refine the text on fraud risk in disaster related aid would not require too much substantial work.

ISSAI 5540: To summarise/update/refine the text on GIS in relation to disaster related aid would not require too much substantial work.

### ***For a GUID on Fraud***

ISSAI 5530: The material should feed into a Fraud GUID. Writing a GUID on Fraud will require an extensive work, as it will also need to refer to ISSAI 5700 (which is also proposed to be moved to GUID), and the guidance in the Fraud GUID should be made generic and applicable across a variety of subject matters.

### ***For a GUID on GIS***

ISSAI 5540: The material should feed into a GIS GUID. Writing a GUID on GIS will required an extensive work as the guidance in the GUID should be made generic and applicable across a variety of subject matters.

### ***For a GUID on the Integrated Financial Accountability Framework***

INTOSAI GOV 9250: It needs work to update and explain the role of a SAI in promoting it.

## *Annexe 1 – Members of the working group*

### **A. Members of the working group**

<b>Name of the SAI</b>	<b>Name of the representative</b>
<b>SAI China</b>	Mr. Kang Yantao
<b>European Court of Auditors</b>	Ms. Stéphanie Girard Mr. Dirk Pauwels
<b>SAI Fiji</b>	Mr. Abele Saunivalu
<b>SAI India</b>	Mr. Hoveyda Abbas
<b>SAI Philippines</b>	Ms. Sally Mutia
<b>SAI USA</b>	Ms. Phyllis Anderson

### **B. FIPP Liaison**

<b>Name of the SAI</b>	<b>Name of the representative</b>
<b>SAI Denmark</b>	Mr. Kristoffer Blegvad (member of FIPP)
	Mr. Rasmus Hyll Bruun (adviser)
<b>SAI France</b>	Mr. Lionel Vareille (member of FIPP)