Proactive Integrity Review

Office of Inspector General

WFP

World Food Programme

wfp.org

Today's Presentation

➢ Innovative tool: Proactive Integrity Reviews
  - ✓ Legal basis
  - ✓ Definition
  - ✓ Objectives

➢ Implementation

➢ PIR: An effective tool/ adding value

➢ PIR next steps

Legal Basis

Revised AFAC Policy (Paragraph 26)

Revised OIG Charter (Paragraph 18 and 19) (ED Directive);

"The Office of the Inspector General may undertake Proactive Integrity Reviews on specific operational issues that may indicate risk of fraud, corruption, collusion and other wrongdoings."

Definition

PIR is a proactive tool that examines WFP business processes or operations, including procurement and logistics activities and WFP financed projects, to ensure that WFP funds and assets are being utilised for their intended purposes and, in doing so, to assess their susceptibility to fraud, corruption, collusion, coercion, and/or other wrongdoings.

Charter OIG – definition

" As part of investigative operational procedures, OIG may undertake Proactive Integrity Reviews (PIR) which will be built from a systematic fraud risk assessment of high risk business processes or operations. The objective of a PIR is to identify fraud risks and provide appropriate risk mitigation measures at an early stage, thus complementing the traditional channel of acting only upon the receipt of complaints. PIRs will also respond to specific concerns, as referred by management or flagged by audit work or raised by external entities, which may indicate risk of fraud, corruption, collusion and other wrongdoings.

A PIR is designed to add value to the current control framework and increase WFP's ability to detect and deter fraud and corruption. If the findings of a PIR provide indications that fraud, corruption or other wrongdoing may have occurred, a formal investigation will be initiated."

Objectives

- PIR should be distinguished as separate and distinct from existing audit, investigation or inspection activities. PIR seeks to fill the gaps in assurance that may exist due to the different operational standards and scope of OIG's investigation, audit and inspection functions.

- A PIR is not an investigation, which determines whether specific allegations can be substantiated;

- A PIR is not an audit, which is designed to provide assurance on the design and operating effectiveness of governance, risk management and internal controls;

- A PIR is not an inspection, which has the objective to provide objective information to management about field offices, units in Headquarters and processes with no predetermined focus on fraud risk.

- A PIR has broader objectives
  - to indicate whether a business process or operation might suffer from fraud or corruption ('red flags')
  - to assess how large that problem may be and to identify areas for follow-up and intervention.
  - to identify appropriate mitigation measures

- In doing so, the PIR may also identify possible weaknesses in project and programme design, implementation and control as well as in the WFP's current control instruments.

- ***Risk Identification:*** Red flags range from facts that directly indicate fraudulent or corrupt activities (e.g. witness admissions), to facts that indicate a high likelihood of fraudulent or corrupt activities (e.g. bidders sharing one address), or to facts that suggest an increased risk for such activities (e.g. poor control environment).

- ***Field work:*** Therefore, and in order to ascertain the probability of fraud, PIR may involve conducting clarification interviews with key WFP, vendor and Cooperating Partners staff, in-depth review of individual expenditures, use of forensic accounting techniques, analytical review of data, and sampling/inspection of delivered product involving Expert Specialists, as required.

- *Risk Mitigation:* The PIR is a useful tool to provide appropriate fraud risk mitigation measures by the Management Unit or Process at an early stage, thus complementing the traditional channel of acting only upon the receipt of complaints.

- *Instigation of a PIR*: PIRs respond to specific concerns, as referred by WFP management or flagged by audit work or raised by external entities, which may indicate risk of fraud, corruption, collusion, coercion and/or other wrongdoings. It can also be instigated following a specific fraud risk exposure scoping (or assessment).

- **Investigations of fraud and corruption**: From a PIR, WFP Management can refer indications of potential fraud or red flags to OIG for investigation after a review of the real nature of the issues/risk. Separate and independent of the PIR, OIG can open an investigation if an allegation is made during the execution of a PIR, in line with OIG investigations guidelines. Any *prima facie* evidence of fraud (not simply a red flag) prompts the opening an investigation by OIG following a notification to relevant level of management.

- **_Recommendations:_** WFP business entities have the responsibility to take ownership of PIR findings.

- **_Reporting Results_**: To WFP Management, EB through OIG Annual Report and Briefing (March 6 FY 2016)

PIR: An increasing trend

Proactive data monitoring and analysis processes such as PIRs were recently identified by the Association of Certified Fraud Examiners (ACFE) as the most effective control mechanism at limiting the duration and cost of fraud schemes. Organizations that implemented proactive control instruments similar to the PIRs experienced a reduction in their losses of up to 60 percent and decreased the duration of the schemes up to 50 percent when compared to organizations that did not.

- EIB – Proactive Integrity Review of EIB funded projects

- Asian DB - Project Procurement-Related Reviews

- WB – Detailed Implementation Review

- UNDP – Proactive Investigations but based on fraud risk assessment

The objectives being sought are similar in nature, but there are slightly different procedural approaches due to different organisational structure and mandates.

PIR – Actions and Next Steps

- **Phase 1**: *Development, Endorsement, Resourcing (FY 2015)*. EMG, Audit Committee, WFP resource business case approved; EB - Revised OIG Charter 2015 (Paragraph 18 and 19); Revised AFAC Policy June 2015 (Paragraph 26).

- The WFP Audit Committee noted with satisfaction the introduction of this new tool. In the 135th Audit Committee Meeting, 25-27 November 2014, it: "*welcomed the OIG plan to introduce Proactive Integrity Reviews (PIR) as a proactive approach to respond to specific risk of fraud that cannot be addressed by the work of internal audit.*"

- The introduction of PIR was further supported in the 137th Audit Committee Meeting, 24–26 June 2015: "*AC members noted with satisfaction that WFP has introduced with Proactive Integrity Reviews (PIR) a new instrument to prevent and mitigate the risk of fraud through a pre-emptive and proactive reviews of red flags. The AC supports this move and the proposed strategy to first implement PIR on a pilot manner in close partnership with the business, and then fully embed it into OIG's existing oversight mechanisms once any adjustment needed from lessons' learned has been effected.*"

PIR - Actions and Next Steps

Phase 2: *Pilot phase (FY 2016)*: **Just finished. Undertaking of a sample PIRs in joint consultation and agreement with the business (management request or joint fraud risk assessment).**

In 2016, the following 5 PIR reports have been issued:

- Proactive Integrity Review Report on Cash Based Transfer Programme in WFP Lebanon.

- Proactive Integrity Review Report on Cash Based Transfer Programme in WFP Jordan.

- Proactive Integrity Review of Republic of Congo Operations

- Proactive Integrity Review of the Central African Republic Operations.

- Proactive Integrity Review of WFP Food Procurement for the Syria Regional Emergency Operations.

PIR - Actions and Next Steps

Results of the 5 PIR's

Key Results include the following:

- 5 significant WFP operations 'stress tested' for fraud risk;

- Compliance and control issues reviewed and number of recommendations for WFP Management action identified (e.g Syria procurement PIR 12 recommendations).

- 4 OIG investigations already launched as result of PIR's by OIG and 6 more are under review/investigation. Limited referrals for investigation from WFP Management with the exception of CAR Country Office

- WFP Management units are responsible for the risk mitigation measures identified. OIG follow up reviews on Jordan/Lebanon/Syria Procurement ongoing in Q1.

PIR - Actions and Next Steps

An Example – Syria Procurement PIR (Nov 2016)

- Protecting the integrity of our procurement system is a priority for the organization. The PIR was undertaken in Turkey precisely for this purpose.

- The PIR did not uncover any effective instances of fraud or corruption with financial impact on WFP. The PIR has, however, highlighted a number of potential areas where we remain vulnerable to risk of fraud.

- WFP Management are reviewing the issues for any potential fraud issues for referral to OIG. However, also 2 investigations were launched by OIG; further 4 OIG reviews on-going.

- WFP management is actioning the PIR recommendations. Follow up review by OIG is foreseen for March 2017 to verify.

PIR Next Steps

Phase 3: *Lesson Learning (FY Q1 2017)*:.

This phase is current and includes:

- *Lessons learned* exercise from the pilot phase Q1 2017 (ongoing) with WFP Management Units and OIG. As well as from the PIR results.

- *Development of the PIR Manual* for implementation. Currently in final draft subject to the lesson learning finalisation.

- *Review and follow up of PIRs by Management and OIG.* WFP Management Unit is responsible for the follow up of the recommendations. Jordan and Lebanon ongoing, Syria Procurement March 2017 (Djibouti and Congo Low Risk desk reviews). Other follow up to be planned (approximately 6 months after PIR subject to risk assessment).

PIR Next Steps

<u>Phase 4</u>: *Mainstreaming (FY Q2 2017 onwards):*

This will include:

- Review of the PIR tool with WFP Management and Audit Committee.

- Review OIG workflows, allocation of resources and

- roll-out of PIRs resulting from fraud risk scoping exercises or management requests.

- Reporting on PIR implementation in OIG Annual Report and OIG Briefings.

Thank you

Q&A on PIR