# Session outline

The past is a foreign country

Waste not, want not

[re-] Set the controls [for the heart of the sun]

Is it secret, is it safe

...a lot's changed in a very short space of time

...emergency measures, while needed, increase the risk of wasteful spend

..the internal control framework has been disrupted, perhaps permanently

..short term and rapid changes increase the risk of error and fraud through security gaps

**Case study: Audit of Ebola outbreak 2014–15**

- **Liberia and Sierra Leone**: conducted real-time audits as well as audits in the aftermath

- **Materiality**: about USD $208 million spent on health-related procurements and economic stimuli for affected areas

- **Scope**: disbursements, procurements, payroll and asset management, financial statements of the projects and entities responsible for managing the response to the epidemic

- **Primary auditees**: respective health ministries and special government entities responsible for funding & managing the crisis

2 LESSONS LEARNED FROM AUDITS OF THE EBOLA EPIDEMIC, HEALTH SYSTEMS AND DISASTER MANAGEMENT IN DEVELOPING COUNTRIES

2.1 EBOLA-RELATED AUDITS

During the Ebola outbreak in 2014-15, the SAIs of Liberia and Sierra Leone conducted real-time audits as well as audits in the aftermath of the outbreak.

In total, the SAIs audited funds of about US$ 208 million spent on health-related procurements and economic stimuli for affected areas. The SAIs audited disbursements, procurements, payroll and asset management, in addition to the financial statements of the projects and entities responsible for managing the response to the epidemic.

The primary auditees were their respective health ministries and special government entities responsible for funding and managing the crisis.

**Audit of Ebola Funds**
*Example from Sierra Leone*

Period: May to October 2014

Funds audited: US$ 8.6 million, donated by institutions and individuals mostly within Sierra Leone and from tax revenues; audit did not cover donor funds channelled through implementing agencies such as the UN and INGOs.

Auditees: Ministry of Health and Sanitation and the National Ebola Response Centre (NERC)

Audit objectives: Ascertain whether public funds allocated to the Ministry and NERC were utilised for their intended purposes. This included assessing whether:

- Donations received were receipted and banked promptly;
- Correct amount of incentives were paid to the right healthcare workers and on time;
- Expenditures were undertaken with due regard to the law, economy and efficiency, and were supported by sufficient and appropriate documentary evidence;
- Goods and services procured were done in accordance with the law;
- Value for money was obtained in the procurement contracts awarded; and
- Interaction between the Ministry and the National Ebola Emergency Centre was functioning well.

The audit reports of the two countries identified several findings likely to be relevant for the Covid-19 crisis. These include non-adherence to procurement procedures, duplicated payments and inadequate management of medical assets. These weaknesses contributed to substantial monetary losses and an inability to fully use the funds for their intended purposes of strengthening the national health systems and saving lives. The illustration on next page shows the main weaknesses highlighted in the audit reports of both Sierra Leone and Liberia. More detailed audit findings are included in Appendix 1.
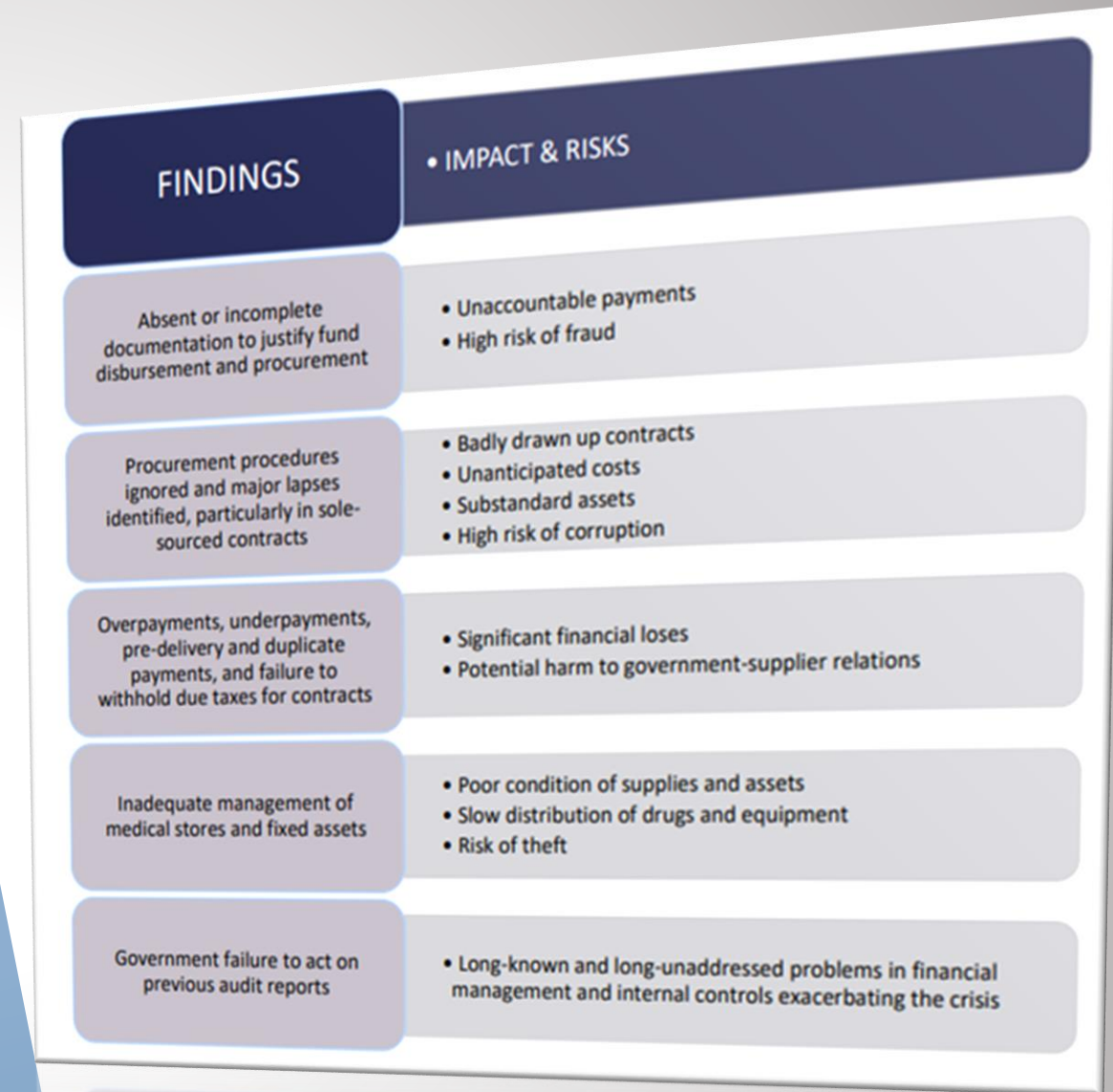
*Accountability in a time of crisis*

**Findings**:
- non-adherence to procurement procedures
- weak quality control systems

**Leading to:**
- duplicated payments
- inadequate management of assets
- poor quality or unsuitable equipment
- substantial monetary losses
- inability to fully use the funds for their intended purposes

| FINDINGS | • IMPACT & RISKS |
|---|---|
| Absent or incomplete documentation to justify fund disbursement and procurement | • Unaccountable payments<br>• High risk of fraud |
| Procurement procedures ignored and major lapses identified, particularly in sole-sourced contracts | • Badly drawn up contracts<br>• Unanticipated costs<br>• Substandard assets<br>• High risk of corruption |
| Overpayments, underpayments, pre-delivery and duplicate payments, and failure to withhold due taxes for contracts | • Significant financial loses<br>• Potential harm to government-supplier relations |
| Inadequate management of medical stores and fixed assets | • Poor condition of supplies and assets<br>• Slow distribution of drugs and equipment<br>• Risk of theft |
| Government failure to act on previous audit reports | • Long-known and long-unaddressed problems in financial management and internal controls exacerbating the crisis |

*Accountability in a time of crisis*

## 8. Maintain active budget oversight and financial management

- Effective financial management includes monitoring and reporting actual expenditure amounts against budgets to support the capacity to optimise implementation resources

- It also involves adherence to relevant government policy and legislative requirements



*Rapid implementation of Australian Government initiatives*

# Control environment

- ❑ integrity and ethical values
- ❑ governance and organisational structures
- ❑ assignment of authority and responsibility
- ❑ capacity and capability of workforce
- ❑ reward and recognition frameworks

Red flags:
- 🚩 morale and motivation diminish
- 🚩 'can do' 'must do' 'push through'
- 🚩 'crisis' structures blur accountability
- 🚩 concentration/dilution of authority
- 🚩 rapid change in size of workforce
- 🚩 redeployment to unfamiliar roles

*Elements of the internal control framework*

C.O.S.O.

**Monitoring and review**

- ❑ management reviews and evaluations
- ❑ controls self-assessments
- ❑ compliance programs
- ❑ internal audit
- ❑ regulatory reviews and audits

Red flags:
- 🚩 cessation/deferral of program
- 🚩 program misaligned to new risks
- 🚩 resources diverted from program
- 🚩 independence compromised
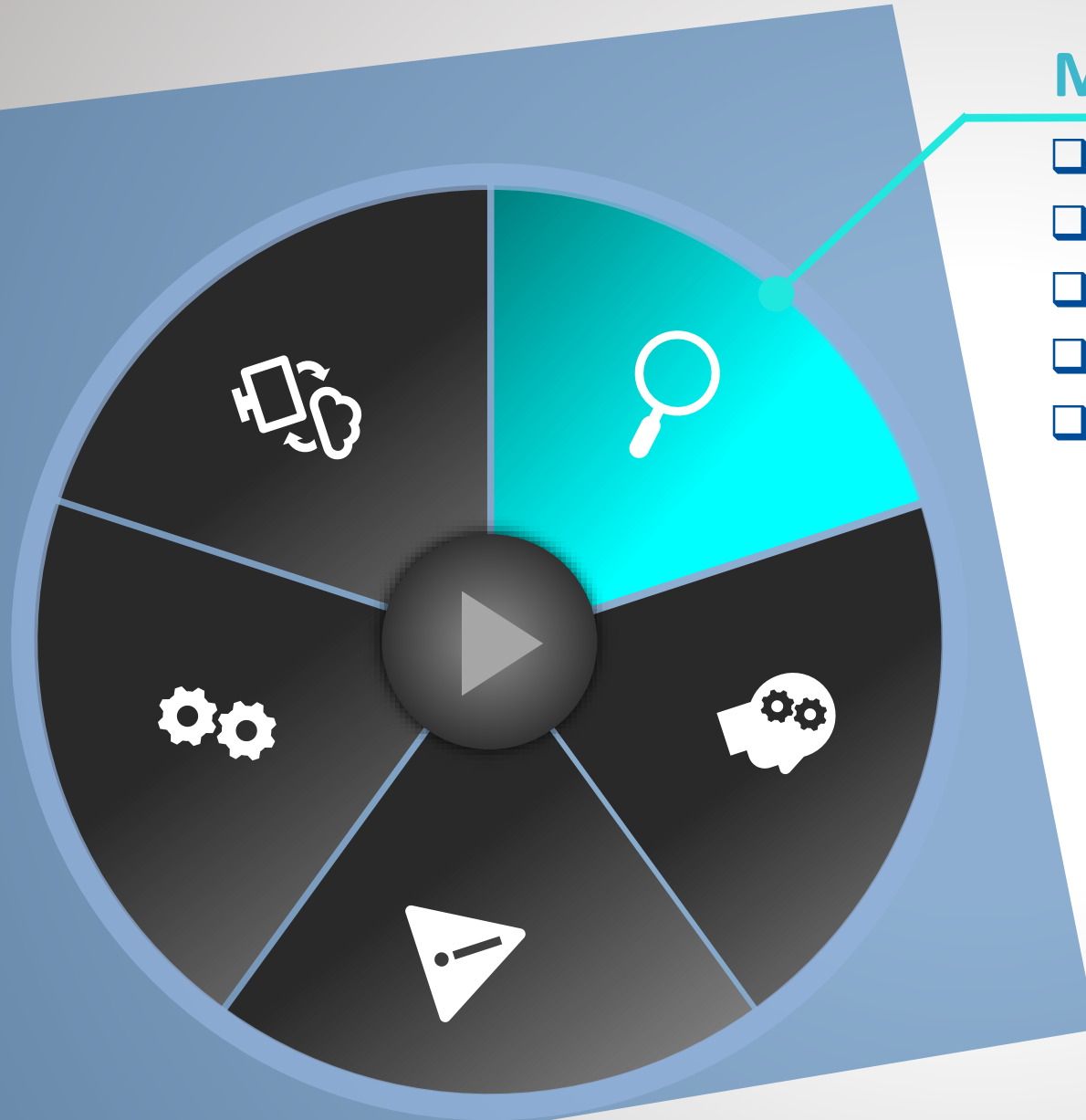
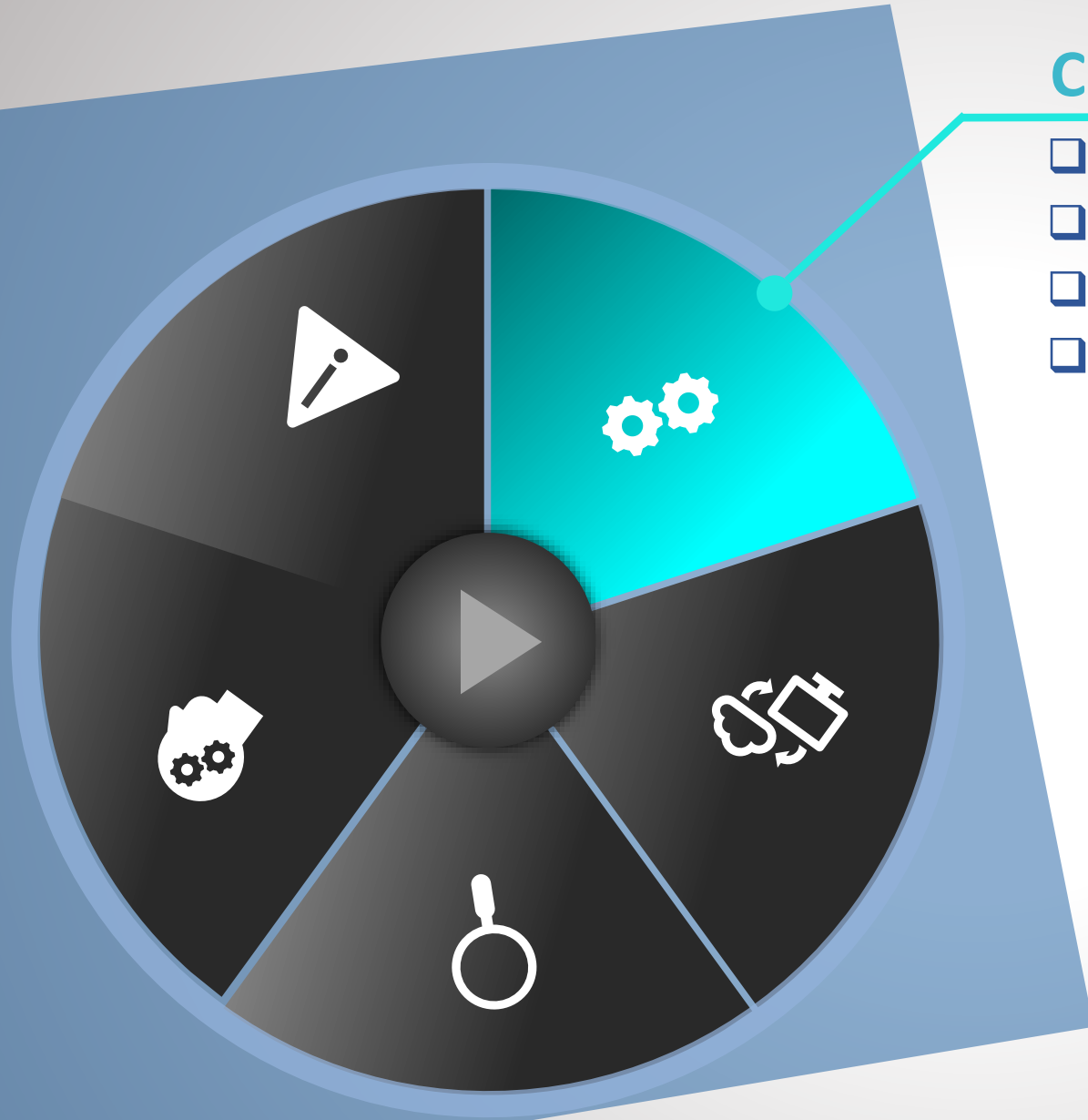*Elements of the internal control framework*

# Information and communication

❑ information and reporting systems
❑ internal and external reporting
❑ financial and non-financial performance

Red flags:
🚩 adverse impact on revenues
🚩 significant disruption of services
🚩 recordkeeping lapses
🚩 audit logs inactive

Elements of the internal control framework

# Control activities

- ❏ input, process and output
- ❏ preventative and detective
- ❏ manual and automated
- ❏ transactions and balances

Red flags:
- 🚩 loss of segregation of duties
- 🚩 material non-routine transactions
- 🚩 extreme transaction volumes
- 🚩 compressed processing timelines

*Elements of the internal control framework*

C.O.S.O.

**Risk management**

- ❑ set risk appetite
- ❑ identify risks
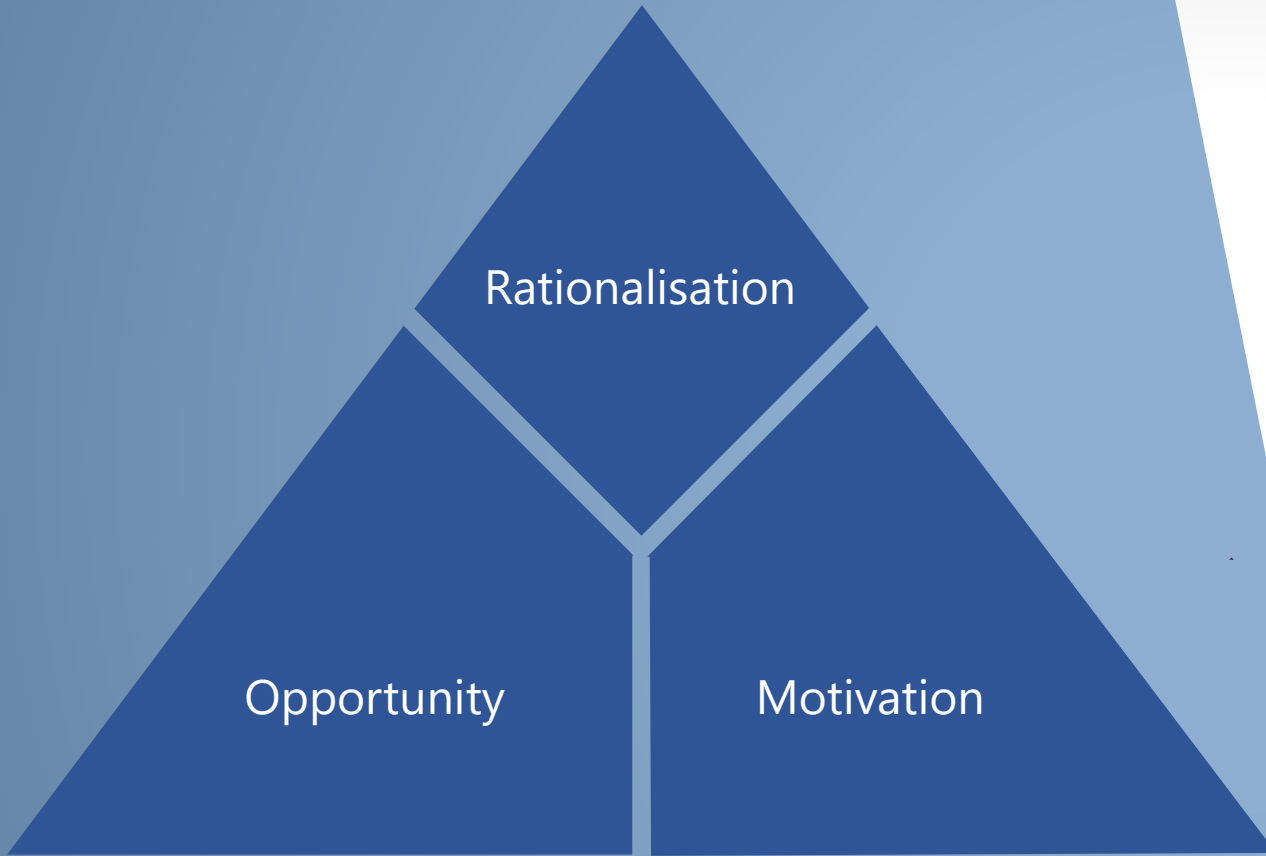- ❑ assess risks
- ❑ treat risks
- ❑ monitor risks and treatments

Red flags:
- 🚩 risk tolerances informally relaxed
- 🚩 new risks missed
- 🚩 risk treatments mismatched

*Elements of the internal control framework*

C.O.S.O.

The fraud triangle

Rationalisation

Opportunity

Motivation
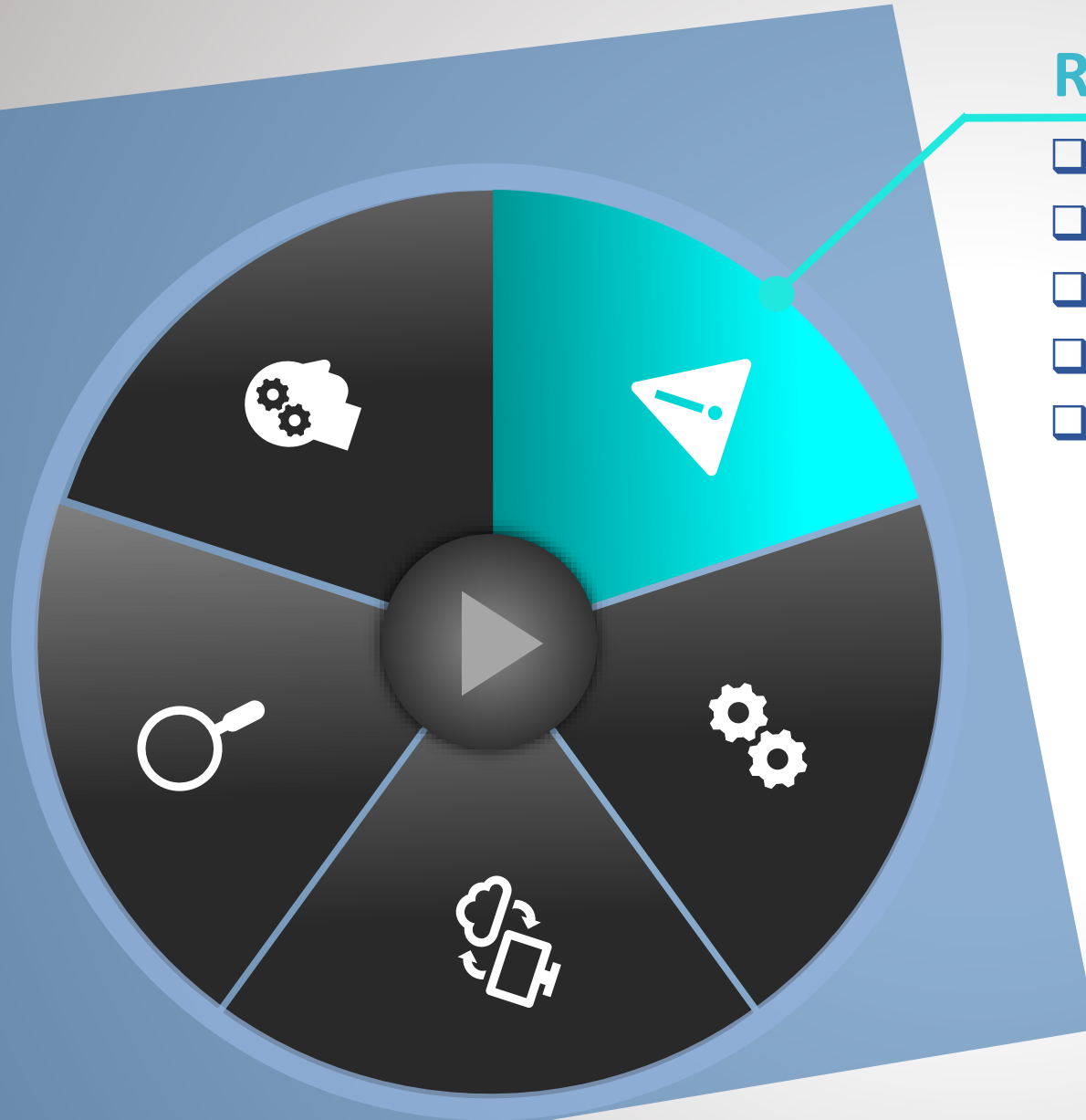
Managing corrupt conduct during the COVID-19 outbreak

NSW INDEPENDENT COMMISSION AGAINST CORRUPTION, April 2020

## Motivation

...the evidence [is] that ...corruption and serious misconduct become more prevalent during periods of significant disruption and economic downturn

## Opportunity

... the routine practice of managing staff becomes challenging when many ...are working remotely.

...complications may arise if a significant proportion of public officials take leave because they are sick or caring for a friend or family member.

...precipitate workarounds that may be tempting for individuals at risk of engaging in corrupt conduct.

Working from home red flags:
- 🚩 low contact/disengaged
- 🚩 'open' unsecure work spaces
- 🚩 social media posts
- 🚩 no electronic signature protocols

Procurement red flags:
- 🚩 accelerated terms of trade
- 🚩 direct engagement of suppliers
- 🚩 overuse of exemptions
- 🚩 increased use of credit cards

IT security red flags:
- 🚩 rapid deployment of VPN
- 🚩 growth in 'super user' access
- 🚩 unmanaged end point devices
- 🚩 single factor authentication

*Managing corrupt conduct during the COVID-19 outbreak*

# Q&A