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Opening statement to the Fifth Committee on the JIU Report

Fraud prevention, detection and response in United Nations system organizations

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Mr. Chairman, distinguished delegates,

I have the honour to introduce to you today the JIU report 'Fraud prevention, detection and response in United Nations system organizations'.

The review addressed concerns expressed by Member States and internal and external oversight bodies of the United Nations system regarding the status of anti-fraud efforts. It examined fraud prevention, detection and response in the United Nations system at the conceptual and operational levels, and advocated the adoption of a fraud management framework for dealing with fraud prevention, detection and response. The report contains 16 formal recommendations, one addressed to the legislative/governing bodies and the rest to the Executive Heads; it also contains 20 informal recommendations in the form of suggestions to improve policies and practices in dealing with fraud.

Compared with fraud statistics reported by professional associations, national government entities, the private sector and academia, the level of fraud reported by the United Nations system is unusually low. In broad terms, the public and private sector average is in the range of 1 to 5 per cent of total revenue, whereas it is in the range of 0.03 per cent for the United Nations system. In other words, underreporting and/or non-detection in the United Nations system could be significant and endemic.

In addition to substantial financial losses, fraud has damaging effects on an organization's reputation, placing at risk the ability to implement programmes effectively, establish partnerships and secure funding. Fraud prevention, detection and responses mechanisms, therefore, play a key role in enhancing the accountability and effectiveness of the United Nations system and in promoting appropriate oversight and the responsible use of resources.

Main findings of the report

The review found that a number of United Nations system organizations have been making concerted efforts in recent years to strengthen their anti-fraud policies and strategies. Progress has been made but challenges remain. The review revealed that organizations need to do much more in understanding the threat of fraud and improving ways to tackle fraudulent activities and malfeasance.

Some organizations are unable and/or unwilling to acknowledge and deal with the threat of fraud at the appropriate level. This also reflected in comments they provided in the context of the present report. There is need for the management of these organizations to have a serious look at their fraud risk profile, acknowledge their level of exposure to fraud, and devise an effective anti-fraud programme to protect the assets, integrity, and reputation of their organizations.

The approach and the intensity of managing the risk of fraud differ from one organization to another. Also, the nature of fraudulent activities varies widely and the levels of fraud committed by staff members and/or by external parties differ considerably among organizations. As such, the report does not advocate a “one-size-fits-all” approach to tackling fraud in the United Nations system; rather, it stresses the need to adapt the proposed fraud management framework to the requirements and specificities of each organization.

The report does not propose combating fraud by putting in place entirely new structures that may have serious financial implications. On the contrary, it advocates making use of the existing ones more effectively and applying proportionality to address fraud based on risk. Additionally, it emphasizes that putting in place robust fraud prevention measures would be far less costly compared to the costs of having to detect and subsequently respond to fraud perpetrated.

In order to provide a structured approach to realizing the objectives of the report, JIU developed a **Fraud Management Framework** comprising eight pillars that address prevention, detection and response to fraud in the United Nations system.

Mr. Chairman, allow me to highlight some of the relevant observations, findings, and recommendations:

Clear understanding of fraud and presumptive fraud is essential

How fraud is defined and interpreted differs widely across organizations. In some cases there is even no common understanding of what fraud is even within the same organization. The lack of a clear definition gives rise to ambiguity and can jeopardize the effective implementation of anti-fraud activities. It impedes accurate and proper reporting in the organizations’ financial statements, as well as compatibility and comparability of fraud data across the United Nations system organizations, and transparency.

Tone at the top and a strong anti-fraud culture is fundamental

Unquestionably, the prevention and detection of and response to fraud constitute one of the primary and critical responsibilities of management. In this sense, “the buck stops” with the executive heads. Many respondents to the JIU fraud survey conducted across the United Nations system did not perceive a clear commitment on the part of the senior management to tackle fraud in their organizations. It is imperative that the executive heads of organizations set a clear, unambiguous and sufficiently strong “tone at the top” and utilize every opportunity to reiterate the organization’s determination in dealing with fraud. This will have a demonstration-cum-deterrent effect.

Need for a comprehensive anti-fraud policy and governance structure with clear allocation of responsibilities and accountability

Only a small number of United Nations system organizations have developed specific anti-fraud policies that bring together all relevant documents and procedures to guide the anti-fraud efforts. In many cases anti-fraud related policies and procedures are often fragmented over several rules,

regulations, guidelines, policies and administrative issuances. Even in organizations that have a corporate stand-alone anti-fraud policy, a clear definition of roles, responsibilities and accountabilities is missing, and there is lack of clear guidance on how to operationalize the policy.

United Nations system organizations need to assess the effectiveness of their existing accountability and control frameworks to counter fraud, and give high priority to updating them as necessary to ensure that organization-wide anti-fraud controls are an integral part of these frameworks.

A trained anti-fraud workforce is the best ally in fighting fraud

While most organizations have in place mandatory ethics training, the review found that the majority of United Nations system staff has not had any specific fraud-related training in recent years. Very few organizations offer dedicated training on anti-fraud aspects, in particular for risk-prone functional areas such as procurement, and none has provided evidence of a specific anti-fraud training strategy to systematically raise awareness and address capacity and knowledge deficits on anti-fraud issues among all staff and management.

Fraud risk assessments: understanding the nature and scale of the problem

Most United Nations system organizations do not conduct systematic fraud risk assessments or consider fraud to be a serious corporate risk. Fraud risk assessments assist in systematically identifying where and how fraud may occur and help devising proper controls to mitigate fraud-related risks. This is indicative of a general lack of understanding of the impact of fraud on an organization's operations. Assessments of fraud risk form the basis for the development of proportionate anti-fraud strategies to effectively deal with fraud.

Strengthening due diligence of staff and third parties, automated controls and monitoring of high-risk programmes/projects are decisive in strengthening anti-fraud measures

Due diligence on future staff member or third parties such as implementing partners, vendors and contractors, in regard to indicators of potential or previous fraudulent activities needs to be strengthened. It is more cost-effective to take the necessary precautions and conduct adequate screening prior to the engagement, so as to avoid negative impacts afterwards, including fraud losses and lengthy and costly legal and administrative processes. Standard anti-fraud provisions in third party legal framework agreements must be considered for incorporation in order to ensure adequate protection of the United Nations system's interests.

Monitoring of high risk programmes and activities, including through conducting spot checks, reviews and audits, is key for anti-fraud, and needs to be strengthened. Fraud prevention and detection capabilities, inclusive of automated activity reporting, data-mining, etc., should be made an integral part of the organizations' automation and ERP systems.

Comprehensive whistle-blower policies and robust anti-retaliation protection are key to an effective anti-fraud programme

Whistle-blowers alone account for the uncovering of more fraud and corruption than all other measures of fraud detection combined. However, while most organizations have adopted at least basic provisions that govern whistle-blowing, instructions on hotlines and other fraud reporting mechanisms were fragmented and not easily accessible.

The review found that fear of retaliation and reprisal ranks high among United Nations system staff. It is clear that most staff suspecting fraud would not come forward if they did not feel protected from retaliation and reprisal. The need for strengthening policies and procedures in the organizations for protection of whistle-blowers, especially against retaliation and reprisal, is self-evident.

Strengthening the investigation processes

Stakeholders have highlighted that investigations take too long. Delays in determining and imposing disciplinary and other corrective action are equally a subject of concern. Protracted processes and challenges faced by most organizations in pursuing perpetrators effectively create a perceived sense of impunity among fraudsters within and around the United Nations system organizations. This may result in perpetrators not being deterred from committing fraud and staff being not inclined to report fraud.

Challenges in pursuing perpetrators

Without the effective enforcement of a sanctions regime, there cannot be an effective anti-fraud programme. Such a regime should include disciplinary measures for internal staff and debarment for external parties. While policies to pursue disciplinary measures appear to be in place, the review revealed that most organizations weigh the legal risks heavily when deciding if and what disciplinary measures should be imposed, and, similarly, in regard to the referral of cases to national enforcement authorities for prosecution. Concerning the latter, organizations should review leading practices of other multilateral institutions and decide the extent to which certain aspects should be made applicable to them, so as to assure effective referrals as appropriate and adequate.

A lacuna in information and reporting on fraud

The review found that basic information on fraud was either absent or fragmented in all the organizations reviewed. There was little, if any, information on the performance of anti-fraud activities based on specific performance indicators, the level of fraud exposure, status of compliance with anti-fraud policies, credible fraud statistics, sanctions, fraud losses and recovery of assets and lessons learned. This hinders accountability and informed decision-making.

Anti-fraud cooperation and coordination among United Nations system entities

Mechanisms and procedures for enhancing cooperation and coordination among the United Nations system organizations to address fraud in a comprehensive manner and on a system-wide basis need to be strengthened. Areas for improved collaboration include information-sharing on vendors and implementing partners, joint anti-fraud campaigns, sharing of training material, joint or parallel investigations, and harmonized sanctioning of staff and third parties. Several cases have been reported where different organizations were defrauded by the same third parties.

Management response / CEB comments

Mr. Chairman, we were happy to read that the CEB appreciates the quality and depth of this report, as well as its analysis. However some of the CEB comments appear to us in the JIU to be excessively defensive. The United Nations system organizations have an opportunity to use this report's findings and recommendations for introspection and reform in this critical area, and it is up to the legislative and governing bodies to ensure that this opportunity is not missed.

Mr. Chairman, distinguished delegates, I thank you for your kind attention, and would welcome comments of delegations and questions you might have.
