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A survey report on tackling inefficiencies, mismanagement and fraud in the developmental sector

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Forensic

Introduction

The role of multilateral and bilateral international organisations, not-for-profit organisations (NPO's), and large foundations in India have expanded over the last decade. Notably, in the last few years, international development financial support in the form of grants, loans, technical assistance, etc. reached a global high of US$ 142.6 billion, an increase of 8.9% from 2015[1].

India is uniquely positioned, having created a regulatory regime to monitor private sector participation in India's development landscape by introducing Corporate Social Responsibility (CSR) compliance norms in the Companies Act, 2013. While there has been considerable progress, the system for implementing projects in the developmental sector also tends to be exposed to vulnerabilities, making it susceptible to inefficiencies, irregularities and fraud. According to the United Nations, between 1-5% of global aid is lost due to fraud[2]. More than the monetary loss, it is the reputation of organisations that is at stake in the absence of a robust monitoring and evaluation (M&E) system.

To better understand how organisations mitigate the risk of mismanagement and misconduct in social sector deployments, we conducted a survey to understand the below key aspects:

1. The presence and implementation of M&E programs within the development sector ecosystem
2. Key measures adopted by organisations for enhancing effectiveness and efficiency of implementations
3. Levels of regulatory compliance among organisations, where applicable
4. Level of preparedness of organisations in pro-actively preventing frauds and mitigating associated risks

Our survey findings indicate that donor organisations are increasingly focusing on ensuring a robust M&E system. Currently monitoring & fraud risk management activities are primarily being undertaken by organisations' internal teams in India. We believe that as organisations focus on the core objective of creating an impact, they are more likely to engage M&E specialists and to adopt technology enablement to optimise and enhance return on investments from M&E.

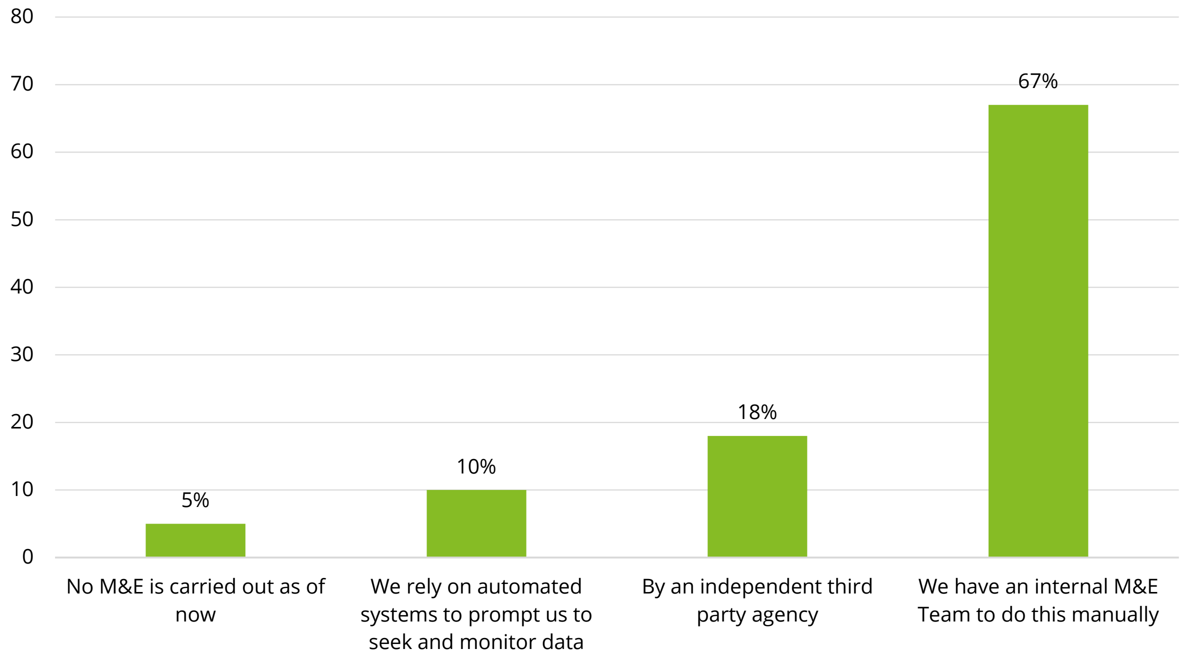
We hope you will find the contents of this report interesting and relevant to your work.

[1] Source: http://www.oecd.org/dac/development-aid-rises-again-in-2016-but-flows-to-poorest-countries-dip.htm
[2] Source: https://www.telegraph.co.uk/news/2017/02/09/revealed-huge-rise-foreign-aid-fraud-officials-still-detect/

Section 1: Monitoring & Evaluation (M&E)

Two out of three survey respondents have indicated that they have internal teams that manage M&E activities, driven by internal mandates (55% of respondents). Further, 79% of respondents indicated that they were implementing programs directly. Based on our experience of working in the development sector, there is an increased need for evaluating and implementing robust monitoring (including financial reviews) techniques and systems alongside right resources.

Fig 1: How are M&E activities carried out at your organisation?



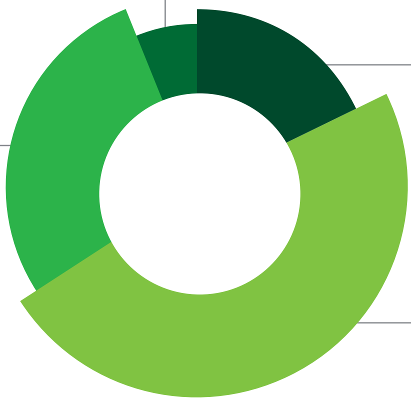
Only about 10% of survey respondents appeared to rely on technology to capture and analyze data for decision making. This is in line with our experience, as program staff tend to find it difficult to quantify and prove results that they intuitively know and can demonstrate. However, we see that donors and boards are pushing for comprehensive and continuous monitoring given their past experience where evaluation has too often been overpromised and under-delivered. In light of that, technology adoption may soon become a necessity in the M&E space.

"Foundations themselves are struggling. They don't share evaluations across their own programs, let alone across a sector. They still rely heavily on calling each other up to make decisions, relying on networks, trying to shortcut the information overload by asking trusted partners what to read in order to feel as though they've done their due diligence."

Director of an organisation serving foundations and nonprofits[3]

[3] Source: Deloitte Insights article titled Reimagining Measurement by Tony Siesfeld, Rhonda Evans, and Gabriel Kasper https://www2.deloitte.com/insights/us/en/topics/social-impact/monitoring-evaluation-learning-social-impact-measurement.html

Fig 2: How often does your organisation typically carry out monitoring activities for your implementing partners or for yourself?



About 66% of respondents indicated that they monitored their project implementation activities on a monthly basis or more. In our view, monitoring efforts need to evolve to a stage where it is conducted on a real-time basis through advanced data analytics techniques to ensure the best opportunity for course correction, where possible.

Point of view: Nurturing M&E to the next level

The concept of monitoring as defined by the United Nations is a continuing function that aims primarily to provide the management and key stakeholders of an ongoing intervention with early indications of progress, or lack thereof, in the achievement of results.

Development organisations globally are moving beyond the general understanding of monitoring and evaluation from program and project based to measurement of outcomes.

The future in this space will focus on creating an integrated monitoring framework which includes a risk identification strategy across all stages of the project lifecycle and leverages technology enabled tools such as blockchain, IoT etc.

In government of India's three year action agenda document released by the NITI Aayog in 2017, there is specific emphasis on the need for improvement of mechanisms for third-party monitoring of government programs to ensure periodical review of the progress and the impact of these programs[4]. The report mentions how the government's platform Pro-Active Governance and Timely Implementation (PRAGATI) has led to significant improvements in monitoring and implementation of major infrastructure projects. NITI Aayog has also initiated the practice of preparing an outcome budget for all central government ministries and departments, which will help in setting transparent targets for all programs as well as impact evaluation and monitoring of government funded programs through its attached office, the Development Monitoring and Evaluation Office (DMEO).

Close to 80% of survey respondents indicated that they were satisfied with their M&E programs and the outcomes. Most said they collected baseline, midline and end line data as part of routine activities. We are optimistic that these organisations will be better positioned to grow their M&E programs to the next level, by encompassing the above aspects in their programs and following the lead taken by the government.

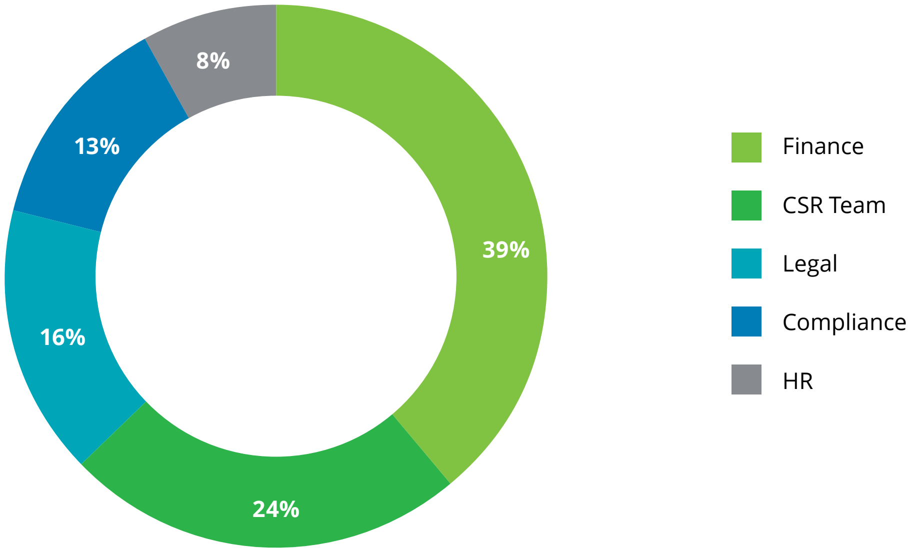
[4] Source: http://niti.gov.in/writereaddata/files/coop/IndiaActionPlan.pdf

Section 2: Regulatory compliance

Development sector organisations are operating in an ecosystem where constant enhancements are being mandated in the stipulated regulatory frameworks, both from governments and donors. Hence, regulatory compliance is imperative not only for managing ongoing concerns, but also for protecting the organisations' brand and reputation which instills trust in society. In the Indian context, the following regulations tend to apply to most agencies based on their source of funding.

- Filing of annual returns as prescribed under applicable Societies Act or Companies Act, 2013 Periodic returns under the Foreign Contribution (Regulation) Act (FCRA) compliance;
- Periodic returns under the Foreign Contribution (Regulation) Act (FCRA) compliance and other similar regulations;
- CSR compliances;
- Compliance to General Finance Rules (GFR) in case of government funding;
- Statutory compliances like Provident fund, Employee State Insurance (ESI), Gratuity, etc.; and
- Filing of Income tax and TDS (tax deducted at source) returns.

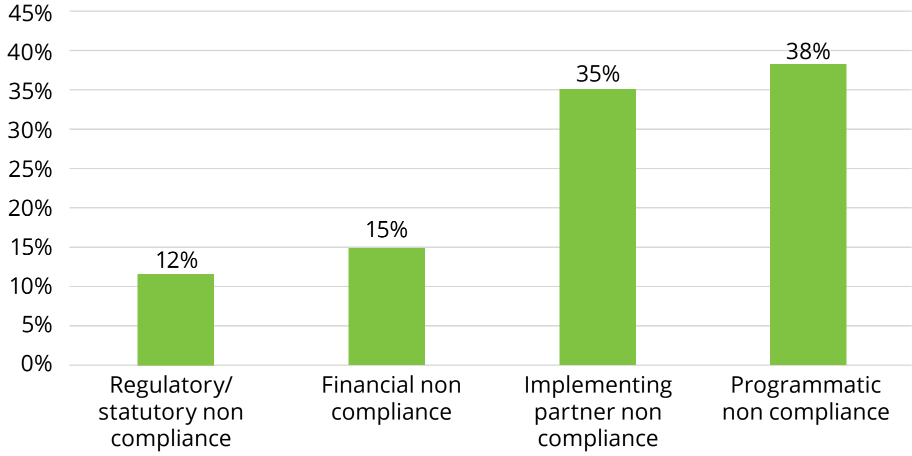
Which team in your organisation monitors and ensures compliance with your CSR spend?



It is heartening to note that 83% of survey respondents felt that their organisations were effectively aligned to comply with regulatory frameworks. Further, three out of four respondents indicated that they had a dedicated officer / resources to focus on this area. Interestingly, in the area of CSR, the finance team appeared to monitor compliance (39%), followed by the CSR team (24%). We believe this may be an overhang of the traditional M&E model where finance teams are the central points to monitor all transactions.

Survey respondents indicated that non-compliance with CSR spends in India is prevalent mainly in the areas of programmatic non-compliance (38%), implementing partner (35%) and financial non-compliance (15%). In our experience, the donor organisation may be able to exercise little control over the implementation partner, unless, there is a robust M&E framework, which triggers automatic notifications to ensure compliances. Additionally, the finance and program teams tend to operate in selective silos without adequate information exchange pertaining to compliance.

Fig 4: In your view what are the most common types of non compliance observed for CSR related spends in India?



Ensuring robust internal controls for compliance

In our experience, development sector organisations tend to have limited focus on ensuring regulatory compliances on account of lack of resources. Recently the Ministry of Corporate Affairs released a list of over 200 companies potentially defaulting with CSR norms[5]. Also, earlier this year, the government barred around 5,000 NGO's from funding for having utilised foreign aid without having an FCRA license[6]. In our view, the repercussions of such non-compliance and associated actions in case of smaller grass root organisations can be far more devastating than what may be felt by large organisations. For example, such defaulting organisations may run the risk of losing donors or in extreme circumstances getting blacklisted. To successfully mitigate the risk of non-compliance, it is necessary to invest in building a regulatory compliance program that is owned and managed by a dedicated compliance manager in the organisation.

The program should be in line with the best practices existing in the industry, and provide guidelines around the 'right' governance structure to monitor and verify various aspects of the programs (internal or external audit teams). Lastly it should facilitate capacity building through trainings and deploying specialized resources (both financial and thematic).

[5] Source: https://economictimes.indiatimes.com/news/economy/policy/mca-issues-preliminary-notices-to-272-cos-for-non-compliance-with-csr-norms/articleshow/65309113.cms

[6] Source: https://www.thehindu.com/news/national/fcra-licence-of-5000-ngos-cancelled-govt/article23303058.ece


PERFORMANCE
Beginner
Average
Skilled
Expert

Section 3: Preparedness to tackle potential frauds

While close to 50% of respondents have indicated that potential fraud loss was less than 5% in their programs, in our experience, this may be significantly higher given most frauds in the sector tend to be under reported. Some of the potential frauds we have observed in this space include:

- Asset Misappropriation;
- Fraud related to skimming of cash receipts and fictitious expenses;
- Fraud related to purchase and fictitious vendor schemes; and
- Payroll and employee expense reporting.

About 44% of the respondents stated that their organisations have neither conducted nor attended trainings/ workshops on fraud prevention or awareness. Further, almost 59% of the respondents indicated that their organisations had never undertaken a fraud risk assessment or were unaware of one. In the area of fraud prevention, most organisations indicated reliance on auditors – independent as well as internal. Only close to 50% of respondents indicated undertaking due diligence exercises prior to engaging with third parties.

Fig 5:Has your organisation undertaken or plans to undertake a Fraud Risk Assessment soon?

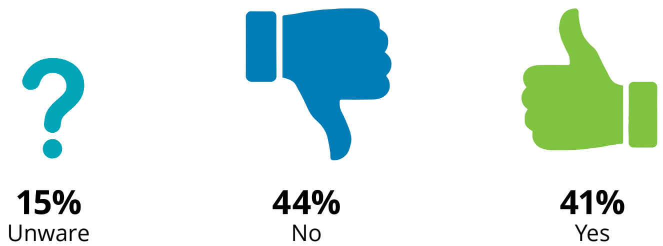
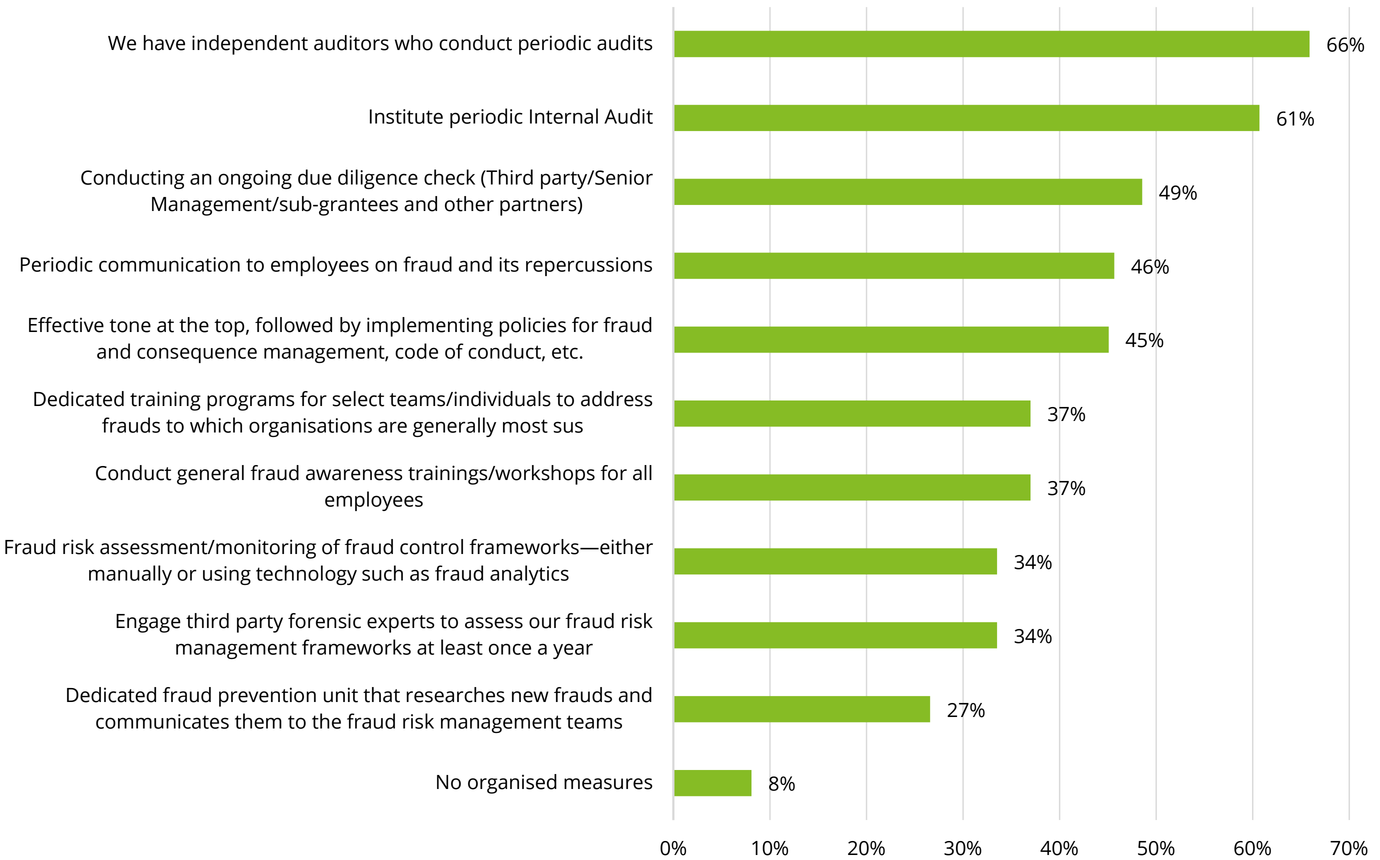


Fig 6: What measures (if any) does your organisation adopt to prevent incidents of fraud and mismanagement?



Note: This is a multiple choice question. Options may not add up to 100%.

Survey respondents have indicated that the primary accountability to prevent fraud should be with the Board and program officers, followed by the office of internal oversight and compliance. To do this effectively, the following aspects may be considered:

- Senior management should recognise the importance of fraud prevention, and invest sufficient resources in accounting, internal controls and financial oversight.
- There is need to have a diverse group of Board of Directors, including those with expertise of financial oversight.
- Leveraging technology, and advanced data analytics techniques can go a long way in prevention of leakages. For example, there are tools available that can monitor through converting satellite images from Landsat or Sentinel, into big data for analysis and deriving meaningful information on impact outcomes.

Conclusion

The way forward for evaluating performance on the achievement of Sustainable Development Goals ('SDG's) is an integrated approach for measurement of indicators. To ensure this development agencies would require to align their existing M&E and impact assessment tools towards assessing and measuring performance on SDG indicators.

Traditional anomaly detection techniques and inefficiently executed investigations only exacerbate the risks associated with frauds. Deploying advanced analytical tools across large data sets provides new insights, leading to more focused investigations, better root cause analyses. One such tool is FDA (Forensic Data Analytics). FDA relates to the ability to collect and use structured and unstructured data to identify potentially improper payments, patterns of behaviour and trends. FDA can also include integration of continuous monitoring tools and analysis of data in real time, and enable a rapid response to prevent suspicious or fraudulent transactions.

Going forward, proactive counter-fraud mechanisms may offer a more sustainable way to build and maintain public trust because they not only reduce the likelihood of fraud, but show measurable results that resonate with donors. Given the dynamic nature of the development sector, government policies, and fraud prevention requirements of international donor agencies, collaboration with organisations possessing expertise in M&E, fraud prevention and detection could be a possible strategy for non-profit organisations.

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About the survey

This survey report has been developed on the basis of responses received to a survey questionnaire that was circulated to development sector program managers across leading multilateral and bilateral agencies, Indian and international NGOs, corporate foundations, public sector units and chambers of commerce, functional in South Asia (mainly India, Bangladesh, Bhutan, Nepal and SriLanka) in September 2018.

We received over 170 anonymous responses from organisations with operational budgets spanning less than INR 5 crores (USD 700,00) to more than INR 100 crores (USD 14 million). We were assisted by iResearch Services in some aspects of survey data collection.

The response rate to questions varies and not all respondents have answered all questions in their respective surveys. Each statistic used in this report is derived from the number of responses to that question and must not be considered consistent across the report. For multiple choice questions and priority based questions, the weighted average of responses for that question has been used to derive the statistics.

Fig 7: Respondents based on organisation type

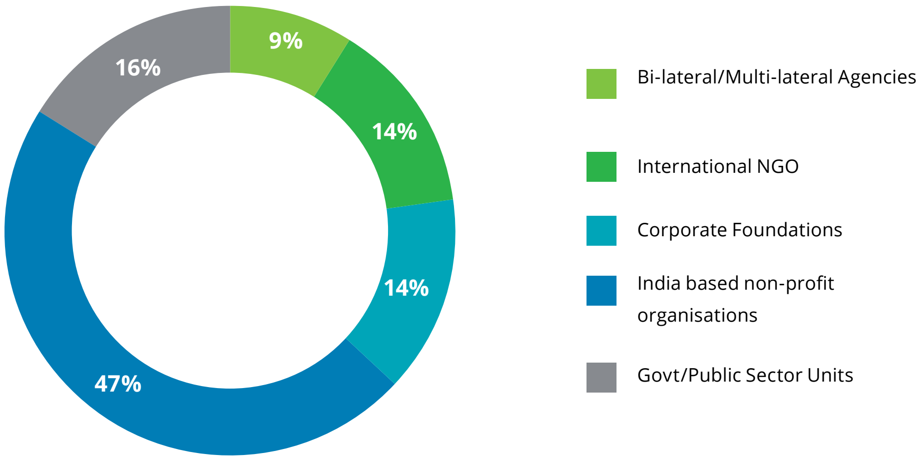


Fig 8 : Respondents based on annual budget

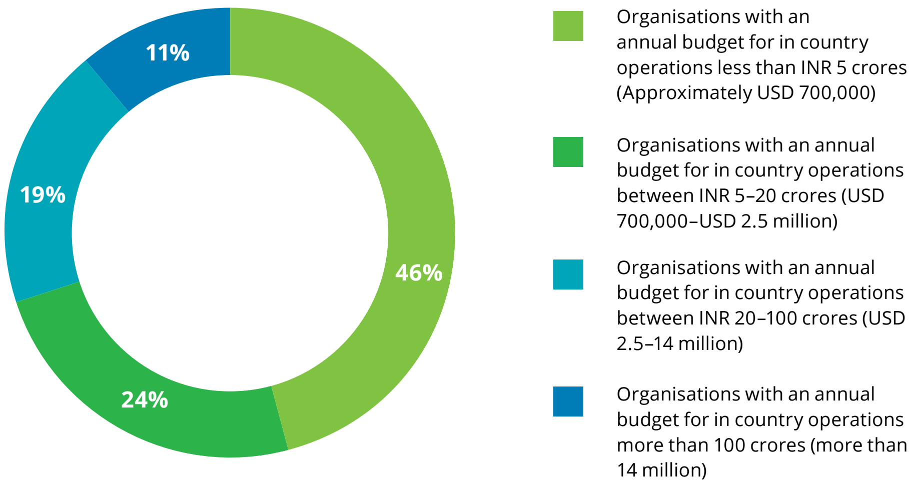
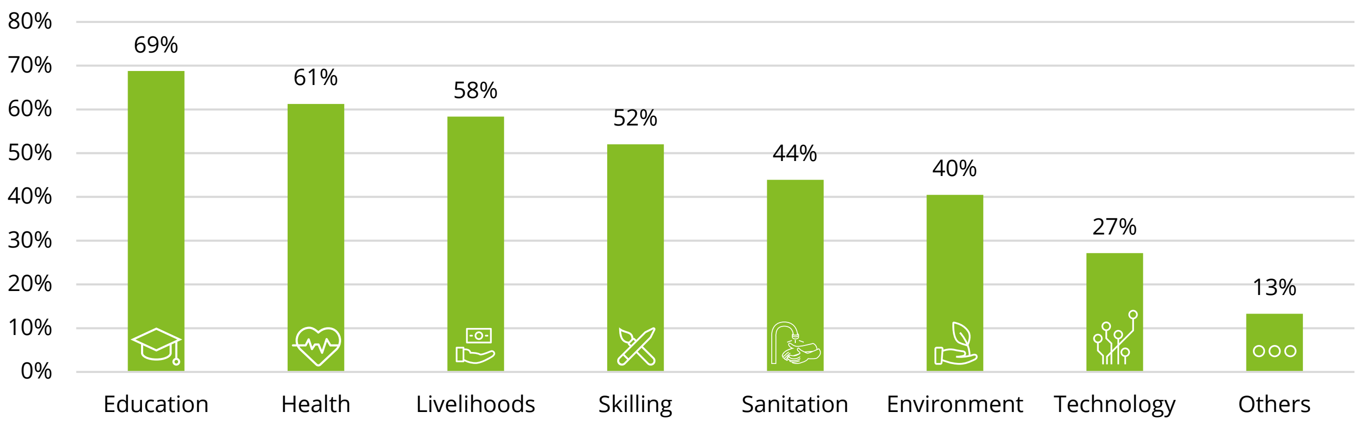


Fig 9: Respondents based on sector



Note: This is a multiple choice question and responses may not add up to 100%. Most respondents identified working in two or more sectors.

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