

Background

The Provident Fund Humanitarian Repayable Withdrawals (PFHRWs) scheme was established by the Commissioner-General in accordance with Area Staff Rule 106.1.17. In this scheme, a participant in the PF, as defined in Area Staff Rule 106.1.3, may obtain a withdrawal against their PF credits subject to conditions outlined in the PFHRW Technical Instruction No. 1.

Administration of the PFHRW is managed in accordance with two regulations: Area Personnel Directive: A/6/Part VII/Rev.5 - Provident Fund Humanitarian Repayable Withdrawals - Nov 2016; and Provident Fund Technical Instruction No. 1 (PFTI No.1) on the Provident Fund Humanitarian Repayable Withdrawal Scheme Effective October 2016.

The overall administrative structure for the PFHRWs includes three levels: the Provident Fund Secretariat (PFS), the Central Provident Fund Humanitarian Repayable Withdrawals Committee (Central Committee or CPFHRWC), and the Field PFHRW Committees (Field Committee or FPFHRWC). The Field Committee is appointed by the field director and reports to the director as well as Central Committee.

Since 2011, close to 50,000 loans have been withdrawn Agency-wide, with a significant increase noted in recent years.

Objective and scope of Audit

The audit covered loans in Lebanon field office (LFO) from 2021-2022 and focused on providing input to determine the extent of recently identified control deficiencies in the PFHRW process and any potential risk of misconduct to better support management decision-making with respect to an overall enhancement in policy and internal mechanisms for PFHRW.

The approach included inquiries, interviews, and discussions with relevant staff in PFS, and the LFO Field Committee, assessing relevant documents to reasonably check authenticity on a sample basis, analysis of data obtained, and other necessary procedures.

A targeted approach to sampling was used. This was achieved by reconstructing data obtained from the digitally scanned supporting documentation. This reconstructed data was analyzed to identify trends and anomalies (results shown below) and then used to select specific samples for a detailed review.

Data analytics results

US\$ 5.2 million was disbursed between 2020 and 2022 (totalling 781 loans) in LFO. Both value and volume have been increasing annually, with an exponential leap of ~228% between 2021 and 2022 in the value of construction PFHRW disbursed

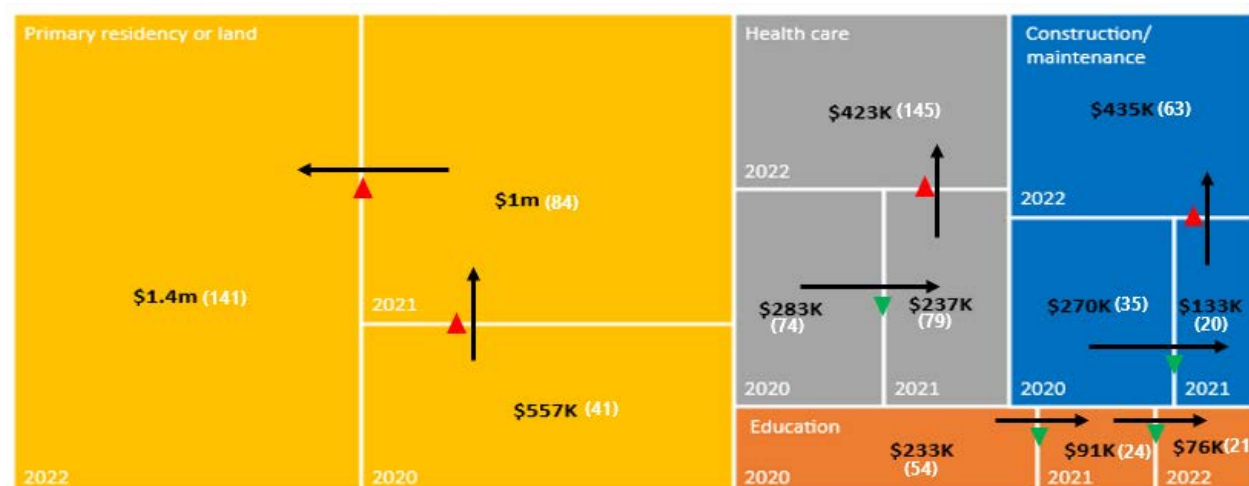


Figure 1: Distribution of PFHRW by purpose from 2020 to 2022 (Source UNRWA REACH/SAP system)

Key: \$Value (Volume) ▲ Increase or ▼ decrease in value

On average, amounts requested ranged from US\$ 2,000 to US\$ 32,500 . In addition, the analysis identified that most (72% to 89%, depending on category) LFO applications were for repayment over the maximum allowable term, and over 20% of staff have concurrent PFHRW.

DIOS created a dataset by extracting information from digitally scanned copies of application forms and other relevant supporting documents for approximately 65% of total PFHRW disbursed in 2021-2022 and identified trends and exceptions which informed the basis for the selection of a targeted sample size such as missing information (no sales agreement, prescription...), incomplete information (no certification, signature), abnormal trends (pre-dated agreements, generic names...) and similar information (same address for residency). Details are included in the audit report.

What IAD concluded

DIOS observed pervasive non-compliance in Lebanon field office and control deficiencies throughout the sub-processes below, from initiation (application PFHRWs) to monitoring and follow-up after disbursement to ensure it is used for the intended purposes:

- Management of loan applications including required register;
- Approval by local committee;
- Submission of education and health receipts to substantiate utilization;
- Annual follow-up by the Central PFHRWC

These observations led to an unsatisfactory audit rating, which means that "internal controls and risk management practices were not established or not functioning well. A number of high or medium risks were identified that overall, may significantly impact the achievement of the performance and/or compliance objectives in the audited area."

The deficiencies may have contributed to certain identified anomalies in the PFHRW, which will be referred to the DIOS Investigations Division for further assessment.

Good practices

The Field Provident Fund Humanitarian Repayable Withdrawals Committee at LFO maintains monthly lists of rejected applications, including the reasons to

support its decision, and the Chairperson circulates emails to facilitate understanding of the PFHRW process and the requirements. There is ongoing work to develop a databank for the applications, and relevant information going back as far as six years shall be uploaded to facilitate the applications review process.

What IAD recommended

DIOS made four high-priority recommendations, with the first being the need for the Field Committee's immediate attention to ensure compliance. Three high-priority recommendations that serve as an overall guide for a control overhaul based on a comprehensive assessment of its objectives and related risks are addressed to the Provident Fund Secretariat of the Department of Finance, which is responsible for ensuring all parties' adherence to PFTI No.1, including its review for relevancy.

The Field Provident Fund Humanitarian Repayable Withdrawal Committee should take immediate necessary action to ensure compliance with the Provident Fund Technical Instruction No. 1, in particular, paragraph 15 requirements pertaining to follow-up. 1

The Provident Fund Secretariat should conduct a risk assessment to identify and analyze the resulting exposure from the control deficiencies and take relevant immediate action to mitigate the risks of fraud. Consideration should include re-prioritization of PFHRW applications until such time enhancements can be made to in the control activities to reduce the risks of fraud substantially and of misappropriation of PF funds. 2

The Provident Fund Secretariat is further urged to re-assess the humanitarian nature of the loans in the spirit of the prior working group recommendations and ensure these are duly considered in the ongoing enhancements of the PFTI No.1.

In overhauling the governance, risk management, and internal controls for the PFHRW process, the Provident Fund Secretariat should consider relevant internal control frameworks components such as architecture/staffing structure, segregation of duties, 3

monitoring and sanctioning mechanism, and communication and reporting.

Specific considerations to strengthen the controls framework through enhancement of the PFTI No.1 should include but are not limited to:

- detailed requirements for effective review to ensure consistent application across the fields. Guidance should also include verification of submitted information and staff representation.
- guidance to ensure documentation as submitted to support the application is appropriately and effectively reviewed, to i.a. reasonably ascertain the authenticity of the documents, and moreover, to assess the staff representation.
- implement a statistically meaningful follow-up requirement for acquiring and renovating the primary residential unit. In addition to increasing the percentage, a specific target sampling methodology can be considered in selecting cases to follow up.
- guidance on specific follow-up action to be taken in the event of repeated non-compliance or lack of cooperation and when loans are not used for the intended purpose. Remedial measures may include arrangements for accelerated repayment and due consideration in future applications

4 The Provident Fund Secretariat should enhance the PFHRW application process with increased appropriate automation in line with the Agency's Digital Transformation strategy

Enhancements should include the ability to collect and record management and control data to enable a monitoring and tracking system for better management and review of applications for improved efficiency and effectiveness of the committee review.

A phased approach should be considered, initially covering the application and basic reporting, while later phases may target automated approval workflows, more complex reporting capabilities and integration with REACH for straight through processing.

Interim measures should be considered, including enhancing the ZPY02 report to include validation against eligible dependents during pre-screening and the inclusion and usage of pre-screening results for more effective committee consideration.

What management is doing to address DIOS recommendations.

The Provident Fund Secretariat and Field Committee has since the audit undertaken further measures to strengthen adherence to the PFTI, and enhancements to the PFHRW framework is currently ongoing. DIOS will assess the implementation of recommendations upon bi-annual follow-up basis closure evidence submitted in due course.

Methodology, Approach and Disclosure

The audit focused on providing input to determine the extent of recently identified control deficiencies in the PFHRW process and any potential risk of misconduct, to better support management decision making with respect to overall enhancement in policy and internal mechanism for PFHRW. The audit covered withdrawals disbursed in the period of 2021-2022.

The approach included inquiries and interviews and discussion with relevant staff in PFS, and Field Committee, assessing relevant documents to reasonably check authenticity on a sample basis, analysis of data obtained, and other procedures deemed necessary.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. It was completed in conformity with the approved work plan and considered the risk assessment exercise conducted prior to the audit.

Pursuant to OD14, this summary of findings and recommendations including management action taken to address recommendations is made publicly available on the DIOS internet page upon issuance of the report on 9 July 2023.