



Annual report on Investigation and Anticorruption Activities during 2016

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I. Summary

1. In 2016, the Office of Audit and Oversight (AUO) and its Investigation Section (IS) played a critical role in upholding IFAD's zero-tolerance stance towards corruption, fraud and misconduct. AUO ensured a timely and effective response to alleged wrongdoing by completing its investigative actions for 56 complaints during the year – a closure rate much higher than in previous years – and generally ensuring a prompt and effective conclusion to issues. Anticorruption awareness outreach was intensified through AUO participation in regional and other events, the pilot launch of an anticorruption e-learning module, celebration of International Anticorruption Day and increased coordination with the Financial Management Services Division (FMD), the Ethics Office (ETH) and the Programme Management Department (PMD). Investigative and sanctions processes were improved through revised procedures and AUO investigation capacity was strengthened through new forensic tools and segregated physical and IT environments. A PMD officer was seconded to the AUO/IS under a programme launched with PMD, and this achieved clear cooperation and learning benefits for the parties involved. Finally, AUO entered into an agreement with the investigations office of a main donor to IFAD of supplementary funds to ensure a coordinated and effective response to alleged irregularities in jointly funded activities.
2. AUO actively participated in and contributed to events of the professional network of United Nations international financial institutions (IFIs) and maintained close cooperation with the internal oversight offices of the Rome-based agencies (RBAs). AUO hosted the annual coordination event for all staff of the RBA internal oversight offices and a well-attended joint RBA training event.
3. AUO staff capacity and financial resources were generally adequate to meet oversight responsibilities in 2016. AUO was provided with the necessary resources to ensure that investigative and audit work was conducted with the required independence and without limitations in scope.

II. Investigation mandate and method

4. AUO is mandated to investigate alleged irregular practices, namely: (i) fraud and corruption involving entities, contractors and non-staff individuals applying for or participating in an IFAD-financed project or headquarters-related contract; and (ii) staff misconduct, including harassment, abuse of authority, retaliation and conflict of interest. IFAD's investigation and sanction practices are aligned with best practices in United Nations agencies and the major multilateral development banks.
5. AUO/IS investigations are administrative in nature, with the objective of gathering evidence that may either corroborate or refute an allegation. Upon receipt, every allegation is subject to an intake review. If it is found that the allegation falls within the mandate of AUO, a preliminary assessment is performed to prioritize the allegation with respect to the existing caseload and an analysis of available information is conducted to determine whether it is appropriate to perform a full investigation, refer to Management for action or catalogue for information. It may be determined that an allegation is better suited for referral to other IFAD divisions, outside agencies or governments, either at the preliminary assessment or after a full investigation. Investigated allegations are classified upon completion as:
 - Substantiated: when sufficient evidence is found to conclude that irregular practices have occurred;
 - Unsubstantiated: when the evidence obtained is insufficient either to corroborate or to refute an allegation of irregular practices; or

- Unfounded: when the evidence obtained is sufficient to refute the allegation(s).
6. Substantiated allegations are presented to the IFAD Sanctions Committee, an internal committee composed of IFAD senior managers, to assess the outcome and decide on the sanction to be applied in the case of an external party or, for internal cases, advise the President as to whether a disciplinary measure should be taken.

III. Investigation activities and prevention of corruption

Investigation caseload in 2016

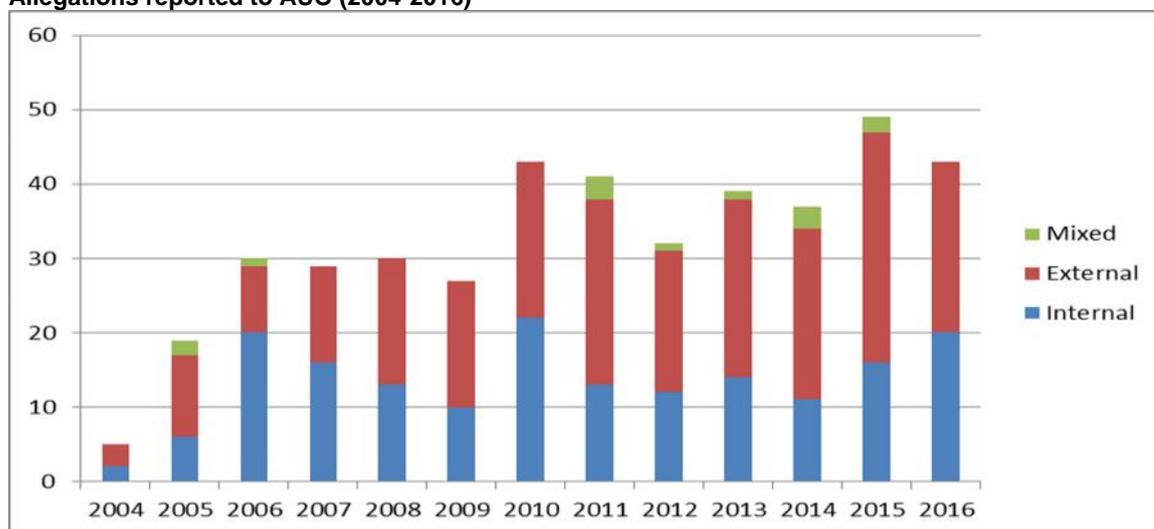
7. AUO carried over 29 cases from 2015 and received 43 new cases in 2016. Of the 72 active cases in 2016, only 16 were carried over to 2017, most of which received in the latter part of 2016.

Table 1
Active investigation cases in 2014-2016

	<i>Internal</i>	<i>External</i>	<i>Internal/ external</i>	<i>Total</i>
Cases pending at year-end 2014	1	7	0	8
Cases received in 2015	16	31	2	49
Total active cases in 2015	17	38	2	57
Cases closed in 2015	6	20	2	28
Cases pending at year-end 2015	11	18	0	29
Cases received in 2016	20	23	0	43
Total active cases in 2016	31	41	0	72
Cases closed in 2016	27	29	0	56
Cases pending at year-end 2016	4	12	0	16

8. In 2016, AUO completed its work on 56 cases – twice as many as in 2015. Twelve cases were closed soon after intake (i.e. after AUO ascertained that the complaint was not within its investigative mandate), 36 were closed after a preliminary assessment and 8 were closed after an investigation. Four cases were brought to the attention of the Sanctions Committee for deliberation. For another 3 cases, the preliminary evidence gathered by AUO indicated risks that had to be addressed with urgency by the Fund, so the AUO investigative conclusions were brought to the immediate attention of Management for action.

Figure 1
Allegations reported to AUO (2004-2016)

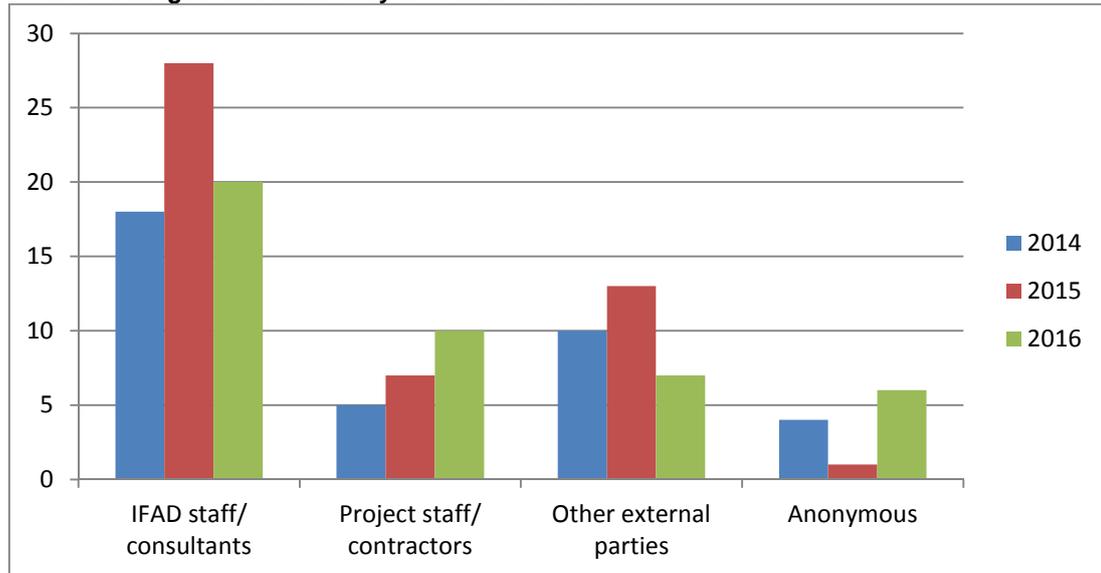


9. In terms of case disposition, the number of project-related cases was lower than in

2015 but consistent with the figures of prior years (figure 1). The intake of staff-related issues was higher than in recent years. However, internal grievance cases (harassment, abuse of authority) showed a decreasing trend, with only two cases referred to AUO from the Ethics Office (ETH) (see figure 5 below). The incidence of new allegations is influenced by many factors and is not predictable, but this trend could be a result of close collaboration between AUO and ETH to address grievances through informal resolution mechanisms.

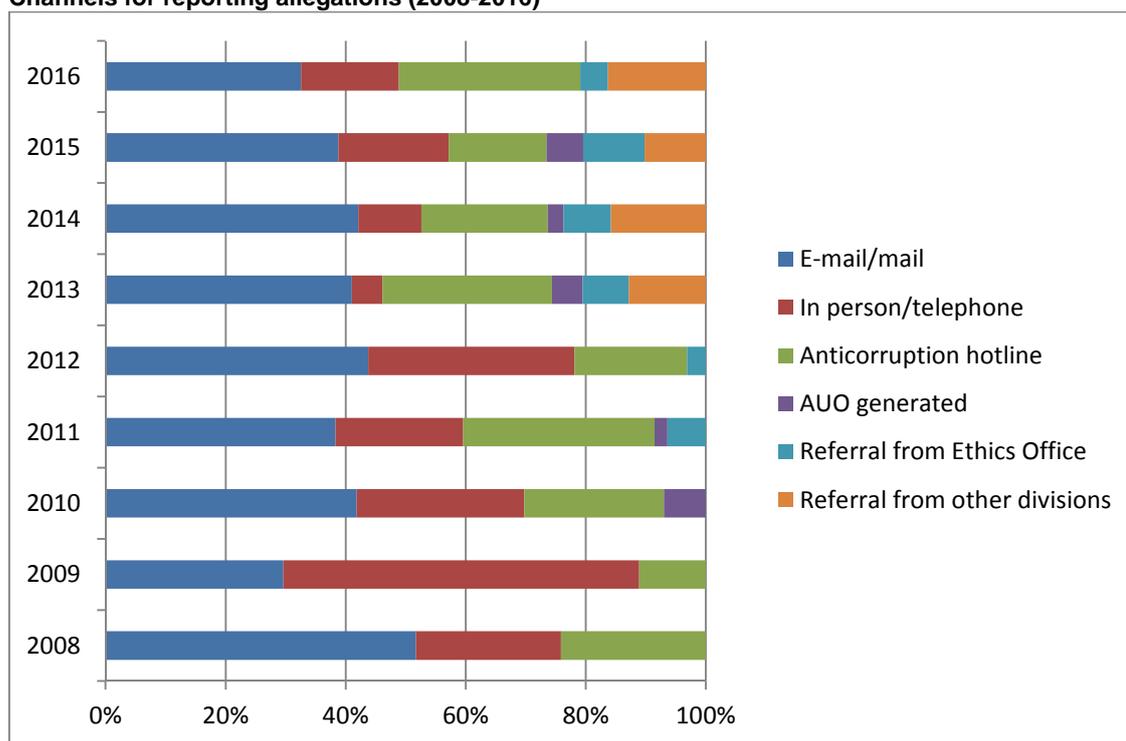
10. Source of allegations. The source pattern of complaints did not differ significantly from previous years, although there was a slight increase in the number of anonymous complainants (figure 2).

Figure 2
Source of allegations received by AUO in 2014-2016



11. In 2016, there was a noteworthy increase in cases being reported through the anticorruption e-mail hotline which supports the assumption that the anticorruption outreach to external parties is becoming more effective. (figure 3).

Figure 3
Channels for reporting allegations (2008-2016)



12. Nature of allegations. Allegations of irregular practices involving staff are referred to as internal cases, whereas allegations in connection with external contractors and IFAD-financed projects and programmes – including alleged irregular practices engaged in by the borrower's or project party's employees, firms, private entities and other individuals – are categorized as external cases. Of the 43 allegations received in 2016, 23 were external and 20 were internal. Table 2 provides information on the nature of the allegations received in 2016.

Table 2
Nature of allegations received

Nature of allegation	2015	2016
External		
Fraudulent practices	7	1
Corruption (including collusion, coercion)	8	4
Mixed (fraud and corruption)	10	11
Other irregular practices	6	7
External/internal		
Fraudulent practices	2	-
Corruption (including collusion, coercion)	-	-
Mixed (fraud and corruption)	-	-
Internal		
Harassment/abuse of authority/retaliation	12	4
Fraudulent practices	-	4
Corruption (including collusion, coercion)	-	1
Mixed (fraud and corruption)	-	3
Other misconduct	4	8
Total	49	43

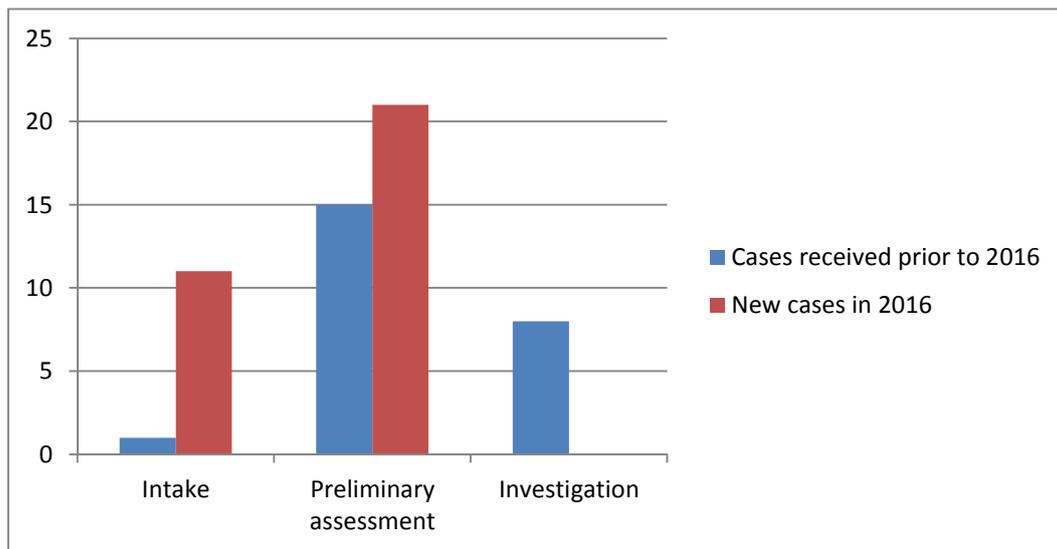
Investigations closed in 2016 and sanctions imposed

13. Twelve cases were closed at the intake phase (i.e. after ascertaining that the complaint received did not fall under AUO's investigative mandate).
14. Thirty-six cases were closed at the preliminary assessment phase (i.e. after ascertaining that the allegation was not material, verifiable or credible), of which

15 were carried forward from 2015 and 21 were received in 2016. The preliminary assessment phase usually involves an interview with the complainant to clarify the allegation, witness interviews and a review of the relevant documents. For project-related cases, AUO may also request the feedback and cooperation/collaboration of PMD and FMD staff.

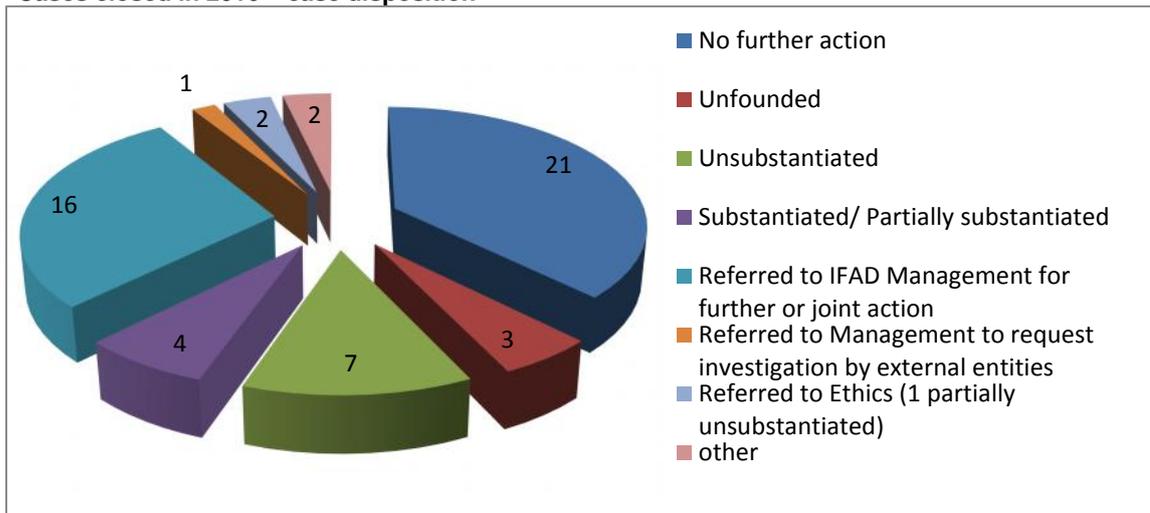
15. Eight cases (all carried forward from 2015) were closed at the investigation stage, four of which submitted to the Sanctions Committee for review (figure 4).

Figure 4
Cases closed in 2016 – phase at closure



16. Where necessary, closed cases were referred for action to PMD, HRD, FMD or external entities and actively monitored by AUO for follow-up action. Figure 5 shows the disposition of these cases.
17. In conformity with its mandate, in May 2016 the Sanctions Committee reviewed all cases closed by AUO during the previous year.

Figure 5
Cases closed in 2016 – case disposition



18. Investigation cases referred to the Sanctions Committee. In 2016, four cases were submitted to the Sanctions Committee – three internal and one external. The internal cases, related to harassment, had been referred to AUO by ETH.
19. In accordance with the recommendation made in 2015 by the external reviewers of IFAD's investigative and sanctions process, in 2016 the Sanctions Committee

introduced an additional due diligence step to ensure that the subject of internal complaints be formally charged with specified violations of IFAD rules of conduct, be informed of possible sanctions and be given another opportunity to respond in advance of review of the case by the Sanctions Committee. A transitional arrangement was applied for the first two internal cases and was slightly modified through a President's Bulletin in December 2016. Under the revised procedure, HRD assesses the AUO findings, with the support of LEG, and determines whether the subject should be charged for specified violations of IFAD rules of conduct. The third internal case was processed through this revised procedure.

- The first two internal cases, which related to the same staff member, led to the imposition of a corrective measure by the President. The third internal case was submitted to the Sanctions Committee, but had not yet been deliberated by year-end.
- In an external case of collusive and fraudulent practices, AUO found that four suppliers committed fraud in the execution of their contracts with an IFAD project by fraudulently supplying the project with a product of a lower quality and value. The four suppliers were declared ineligible to receive contracts either partially or totally financed by an IFAD-financed project for a period of three years.

20. Cases closed by AUO after an investigation. A case of alleged corrupt practices in an IFAD-funded project was closed when further contact with the complainant confirmed that the allegations and evidence provided did not support a credible case of irregular practices as defined by the IFAD anticorruption policy. A case of alleged conflict of interest and breaches of confidentiality by an IFAD staff member was closed as unsubstantiated, and a management letter was issued to emphasize the importance of IFAD staff maintaining an arm's length approach when supervising project activities. A case of retaliation by an IFAD staff member was closed as unsubstantiated. An internal case of alleged misconduct has been suspended pending fulfilment of due process for the subject.

21. Cases closed after a preliminary assessment. Of the 36 cases closed at preliminary assessment, 21 were external and 15 internal. A summary of a selection of the cases closed after a preliminary assessment is provided below.

External cases (project)

- Lack of prima facie evidence. Seven cases involving alleged misuse of IFAD assets and/or corrupt, collusive and fraudulent practices in IFAD-funded projects were closed by AUO after the preliminary assessment did not generate sufficient evidence to lend credibility to the allegations. AUO cooperated with PMD (and in one case with the co-financing IFI) to ensure that the potential irregularities were further explored during supervision activities and that risk mitigation measures were put in place where appropriate. In one case, the allegation's verifiability was limited, as it related to a long-closed project, while in another, feedback obtained by AUO confirmed the lack of any foundation to the allegations.
- No cooperation or contact with complainant. AUO closed two cases of alleged embezzlement or fraud in IFAD-funded or co-financed projects because it was unable to verify the credibility of the complaint, given the unresponsiveness of the complainant and the lack of any corroborative evidence.
- Investigated by national authorities. Three cases of alleged corrupt and fraudulent activities by officials of the implementing agency of projects were closed after investigations were launched by competent national anticorruption bodies. In two cases, the main subjects of the alleged wrongdoing were removed from IFAD-funded activities, while in the third, AUO retained an active role, together with PMD, in monitoring and

contributing, if necessary, to the investigative activity. In all cases, AUO confirmed that the specific allegations did not directly involve IFAD-funded activities.

- Referred to other entities for action. Three allegations of collusion, fraud and corruption involved complaints regarding inappropriate use of project assets and the management of project staff recruitment and remuneration. In one case, the problematic recruitment process was ongoing, so the alleged irregularity had not yet materialized. These were referred to PMD to be addressed through supervisory and implementation support activities.
22. In line with the practices of other IFIs, IFAD does not debar government officials. However, it demands appropriate government action where officials are found to have engaged in irregular practices in relation to IFAD-funded activities. It also monitors the implementation of such actions before programme activities can resume.

External cases (other)

- A case of fraud by an agent of an insurance brokerage company – in relation to an old transaction involving a small amount – was closed by AUO after IFAD took legal measures against the subject and after considering that the materiality and verifiability of the allegation were limited (the subject could not be traced by national authorities).

Internal cases

- Nine internal cases were closed as unsubstantiated after a preliminary assessment. These included: alleged conflict of interest in the recruitment of a consultant, misuse of privileges, irregularities in travel expense claims, improper communications with a Member State, collusion with an IFAD contractor in a procurement process, retaliation, unauthorized tampering with an IFAD system, misrepresentation in application documents and improprieties in awarding an IFAD grant. In all cases in which irregularities or weaknesses in conduct or processes were identified, they were brought to the attention of the appropriate division, including HRD and PMD, to be addressed in the context of programme management and IFAD operations, either by e-mail referral or a management letter.
 - Two cases were referred to ETH for further assessment after a preliminary review clarified that the nature of the alleged misconduct fell under ETH's mandate for initial assessment and attempting informal resolution. One of the cases involved alleged retaliation and the other concerned harassment and abuse of authority. In the latter case, additional allegations of disclosure of confidential information were closed by AUO as unsubstantiated.
 - For three internal allegations, evidence generated by AUO during the preliminary assessment stage revealed significant risks to the Fund and raised serious doubts as to the integrity of the subjects. AUO promptly brought these concerns to the attention of Senior Management and appropriate managerial action was taken to mitigate the identified risks.
23. Cases closed at the intake phase (i.e. after ascertaining that the complaint received did not fall under AUO's investigative mandate). These included issues not related to IFAD staff or activities funded by IFAD, complaints which did not contain any elements of fraud or corruption, cases relating to project recruitment practices, harassment complaints (referred to ETH) and issues that had already been addressed through other means.

IV. Reform, outreach and cooperation

Reform of IFAD investigative and sanctions processes

24. As previously reported, following an external review of the IFAD investigative and sanctions processes, an action plan was put in place and completed to implement the accepted recommended actions. As a result of the recommendations, the procedures underpinning the IFAD investigative, disciplinary and sanctions processes and associated organizational responsibilities were revised and strengthened. Additionally, AUO enhanced its investigative capacity by installing a secure internal network, acquiring an IT forensic software information-management-and-analysis capacity and strengthening the physical security of its offices and records.

Outreach and cooperation

25. AUO actively sought opportunities for outreach in 2016. AUO staff held anticorruption sessions in several regional and corporate events throughout the year, and produced a special programme for the International Anticorruption Day event held at IFAD headquarters on 9 December, which offered staff, both in headquarters and the ICOs, the opportunity to learn more about AUO's work and issues pertaining to anticorruption, including through updated online and hardcopy material. AUO also designed an e-learning module for anticorruption awareness, to be rolled out in early 2017. The first version was piloted during the International Anticorruption Day event.
26. AUO participated actively in and contributed to various United Nations/IFI professional network events and maintained close cooperation with the internal oversight offices of the RBAs. It hosted the annual coordination event for staff of these RBA offices and organized and hosted a well-attended, joint RBA training event on Internet and Open-Source Research. Technical consultation and support among RBA oversight staff continued throughout the year, including expert input into internal oversight recruitments by other agencies.
27. AUO signed a cooperation agreement with the Anti-Fraud Office of a main IFAD partner that will regulate the handling of allegations of irregularities in jointly funded activities. It will also support the common interests of the two offices in combating fraud, corruption and any other illegal activities.

V. Staff and resources

28. For 2016, the official workforce structure for AUO remained unchanged. In the Investigations Section there were three fixed term positions supplemented by temporary and seconded staff and external experts.
29. The new Investigation Manager took up his post in mid-February. A staff exchange programme was launched in 2016 through which a Programme Management Department (PMD) staff member was seconded to AUO to work on project-related investigations. This arrangement provided significant benefits for all parties involved, and efforts are ongoing to expand this scheme to other divisions (particularly FMD) having relevant fiduciary or operational responsibilities.
30. Audit and investigative staff maintained their professional and technical skills through participation in United Nations/IFI professional network events, online and in-person training and professional updating activities, taking advantage, where possible, of training organized by United Nations agencies (such as the RBA training event hosted by IFAD).