



## **Annual Report on IFAD's Investigation and Anticorruption Activities during 2022**

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## **Abbreviations and acronyms**

AUO	Office of Audit and Oversight
ETH	Ethics Office
FMD	Financial Management Services Division
IFI	International Financial Institution
HRD	Human Resources Division
PMD	Programme Management Department
PMU	Programme management unit
SEA	sexual exploitation and abuse
SH	sexual harassment

# **Annual Report on the Activities of the Office of Audit and Oversight during 2022**

## **I. Introduction**

1. This report presents information on the investigation and corruption prevention activities carried out by IFAD's Office of Audit and Oversight (AUO) in 2022. Information is also provided on investigation outcomes and sanctions, on outreach and cooperation efforts, and on the use of staff and other resources in 2022.

## **II. Executive summary**

### **A. Salient observations from allegations and investigation**

2. The AUO intake rate of allegations of misconduct and prohibited practices increased by 30 per cent compared to 2021. This increase reflects not only the inherent fraud and corruption risks in the challenging environments where IFAD operates (as also highlighted by the AUO internal audit reports) but also the alertness and strengthened detection capacity of PMD, the Financial Management Services Division (FMD), the Financial Controller's Division (FCD) and other colleagues with programme management, supervisory and audit responsibilities. It is also indicative of the strengthened anticorruption awareness efforts, the improved visibility of IFAD's reporting channels, and staff's closer proximity to beneficiaries and local whistle-blowers as a result of decentralization. As in previous years, most of the external allegations related to project procurement activities, such as collusion among bidders to rig bidding processes, submission of fraudulent certificates, commercial test reports or financial capacity statements for bidding activities, and misrepresentations in bidding documentation. Several allegations implicated project employees in soliciting bribes or kickbacks from goods or service providers in return for a favour in contract award or in facilitating the alleged wrongdoing of external parties.
3. AUO stepped up its anticorruption response by completing the highest number of cases in 2022 than in any previous year, which in turn led to the highest number of debarments. The quality of investigative work was commended by the IFAD Sanctions Committee, and in the judgments of the appeals tribunals and the preliminary findings of the external review of the AUO investigation function (see para. 7). AUO continued sharing case status data through frequent meetings with all key stakeholders, enabling colleagues to identify and respond to fraud risk promptly. AUO also coordinated actively with FCD in populating the integrity due diligence list, which enables IFAD to take necessary operational action against entities with integrity risks. Where allegations of prohibited practice coincided with audits of the IFAD supervision of country programmes, AUO fielded joint audit/investigation missions. This innovative approach (not common in oversight functions in the United Nations system or among international financial institutions [IFIs]) resulted in faster resolution of cases, better-supported audit and investigation findings and better-structured recommendations for control improvements.
4. An independent external review of the IFAD investigation function was completed in February 2023. The report of the review together with Management's and AUO's comments and action plan will be presented to the Audit Committee for discussion at its June meeting.

## **III. Investigation activities and prevention of corruption**

### **B. Investigation mandate and method**

5. AUO is mandated to investigate alleged fraud and corruption involving entities, contractors and non-staff individuals engaged in any activity financed by IFAD; and staff misconduct. AUO investigations are administrative in nature; their purpose is

to gather evidence that may either corroborate or refute an allegation. Upon receipt by AUO, an allegation is subject to an intake review. If it falls within the mandate of AUO, a preliminary assessment is performed to determine whether the allegation is credible, verifiable and material. If all three criteria are met, an investigation is launched. 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 an investigation. Investigated allegations are classified upon completion as:

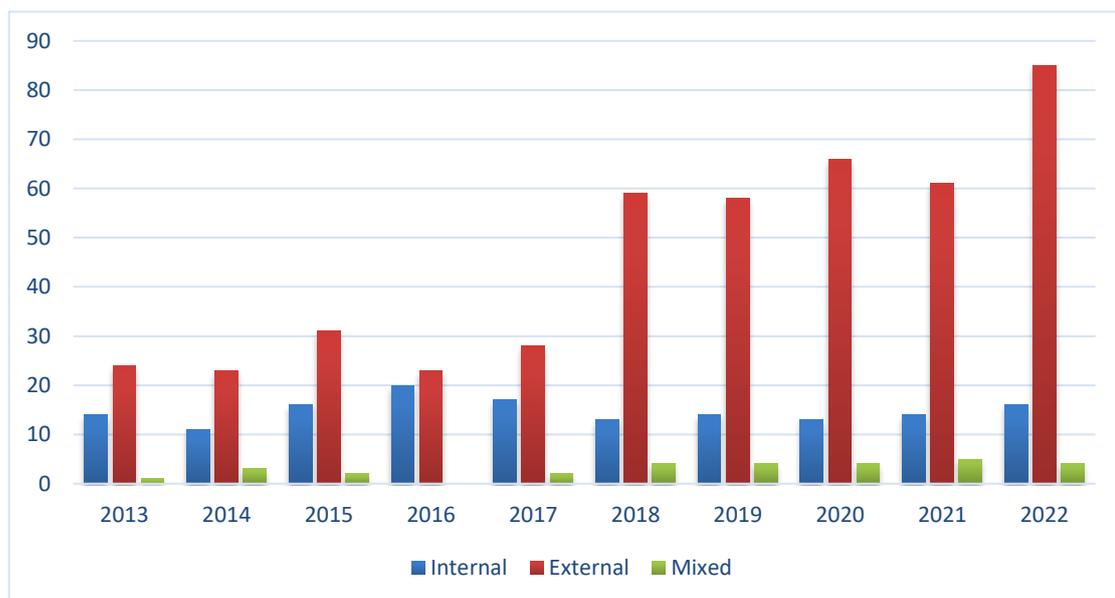
- **Substantiated:** when sufficient evidence is found to conclude that irregular practices have occurred; if a complaint/case involves multiple allegations and some have been substantiated while others not, the "partially substantiated" classification is applied.
- **Unsubstantiated:** when the evidence obtained is insufficient either to corroborate or to refute the allegation(s).
- **Unfounded:** when the evidence obtained is sufficient to refute the allegation(s).

6. Substantiated allegations are presented to the IFAD Sanctions Committee, which is composed of IFAD senior managers and chaired by the Vice-President. In cases relating to external parties, the Sanctions Committee will determine the sanction to be applied. Substantiated allegations against staff are first referred to the Human Resources Division (HRD) to assess the evidence and determine if disciplinary charges are to be served to the staff member; they are then submitted for final review by the Sanctions Committee, which is followed by the issuance of a recommendation to the President as to whether a disciplinary or other measure should be taken.

### C. Investigation caseload overview

7. Figure 1 sets out the trend of allegations/complaints of wrongdoing received by AUO during the last 10 years. Allegations of wrongdoing involving IFAD staff are considered internal cases, whereas allegations connected to contractors or IFAD-financed projects and programmes – including alleged prohibited practices by project employees, firms, private entities and other individuals – are categorized as external cases.

Figure 1  
**Allegations reported to AUO (2013–2022)**



8. In 2022, AUO completed the highest number of cases in one year to date.

Table 1  
Active investigation cases in 2021–2022

	<i>Internal</i>	<i>External</i>	<i>Internal/ external</i>	<i>Total</i>
<b>Cases pending at year-end 2020</b>	<b>7</b>	<b>58</b>	<b>6</b>	<b>71</b>
<b>Cases received in 2021</b>	<b>14</b>	<b>61</b>	<b>5</b>	<b>80</b>
<i>Total active cases in 2021</i>	<b>21</b>	<b>119</b>	<b>11</b>	<b>151</b>
Cases closed in 2021*	<b>18</b>	<b>58</b>	<b>4</b>	<b>80</b>
<b>Cases pending at year-end 2021</b>	<b>3</b>	<b>61</b>	<b>7</b>	<b>71</b>
<b>Cases received in 2022</b>	<b>16</b>	<b>85</b>	<b>4</b>	<b>105</b>
<i>Total active cases in 2022</i>	19	146	11	176
Cases closed in 2022	9	78	4	91
<b>Cases pending at year-end 2022</b>	<b>10</b>	<b>68</b>	<b>7</b>	<b>85</b>

\*One case split – external and internal/external.

## D. Investigation caseload in 2022

### New allegations in 2022

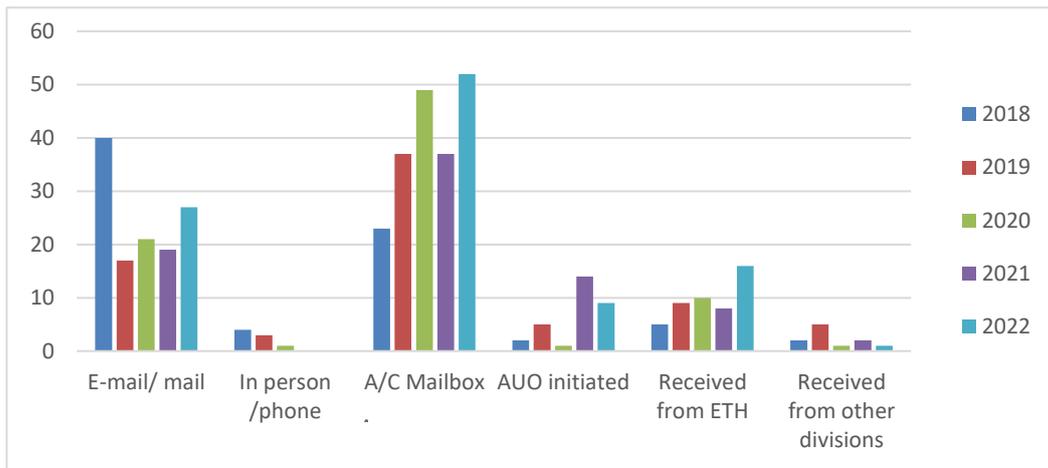
Table 2  
Nature of allegations received in 2020–2022

<i>Nature of allegation</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<b>External</b>			
Violations of IFAD's anticorruption policy (fraudulent, corrupt, collusive, coercive and obstructive practices)	47	<b>36</b>	63
Violations of the Code of Conduct by IFAD consultants*	1	-	2
Violations of IFAD's sexual harassment/sexual exploitation and abuse (SEA/SH) policy	-	-	-
Other (including bid/contract disputes, recruitment issues and other operational issues not falling within IFAD's anticorruption policy scope)	18	<b>25</b>	20
<b>Internal (or mixed internal and external)</b>			
Violations of IFAD's anticorruption policy (fraudulent, corrupt, collusive, coercive or obstructive practices)	3	3	2
Violations of IFAD's SEA/SH policy	1	-	1
Workplace conflict cases	1	6	4
Other violations of the Code of Conduct	10	8	12
Other (mixed – other misconduct)	2	2	1
<b>Total</b>	<b>83</b>	<b>80</b>	<b>105</b>

\* One external case involved a mixed allegation, split between violation under the Code of Conduct and the anticorruption policy.

9. As in prior years, the bulk of complaints related to alleged fraud or corruption in IFAD-financed projects, representing a significant increase over 2021. A slight decrease was noted in complaints stemming from bid, contract and recruitment disputes, which were generally referred by AUO to PMD to be managed through IFAD's supervisory mechanism.
10. There was a slight decrease in the number of internal grievance cases referred to AUO, such as harassment and abuse of authority. AUO gives such cases high priority, while ensuring that other internal resolution channels are availed of by the complainants where appropriate. The "other violations of the Code of Conduct" related to alleged inappropriate actions by staff members, including undeclared conflicts of interest, misrepresentation of information to the Fund, circumvention of rules and regulations, inappropriate behaviour towards project employees or other external entities, and gross negligence.

Figure 2  
Channels used for reporting issues to AUO in 2018–2022



11. Figure 2 points to the increased use of the AUO confidential anticorruption hotline (anticorruption@ifad.org). AUO audits continue to be an important detection mechanism for potential prohibited practices in projects. The organic interactions with AUO’s audit section (including through joint missions) enable prompt and systematic follow-up on the red flags noted in AUO’s audit work.
12. Of the 16 cases reported to AUO by the Ethics Office (ETH), four cases were referred to AUO in relation to potential violations of the Code of Conduct by IFAD staff or consultants. In addition, another staff-related case was forwarded to AUO by ETH as well as 11 external complaints in relation to potential fraud and/or corruption or contractual disputes in IFAD-funded projects.

Figure 3  
Source of allegations received by AUO in 2018-2022

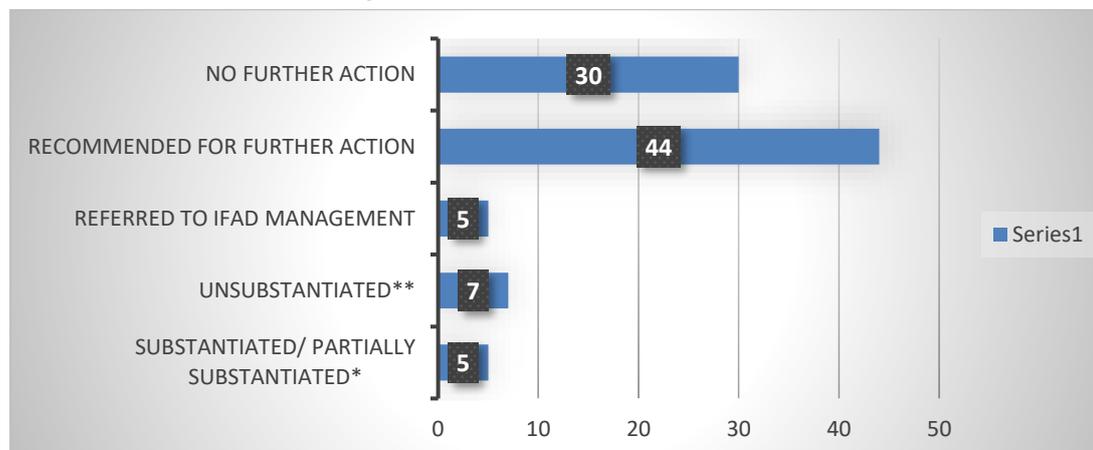


\* Four cases received from United Nations agencies’ personnel.

13. The trends in figure 3 reflect the improving awareness of IFAD’s anticorruption reporting requirements and channels among IFAD staff, project employees, vendors and partners.

## E. Cases closed in 2022 – Overview

Figure 4  
Cases closed in 2022 – case disposition



\* Two cases were a split of substantiated and not substantiated. One case resulted in two separate investigation reports to the Sanctions Committee.

\*\* Two of these cases had some elements substantiated and were reported on separately in 2021.

14. In 2022, AUO completed its work on a total of 91 cases. Forty of these related to complaints received prior to 2022, of which 12 underwent a full investigation. Fifty-one cases received in 2022 were closed, with one having undergone a full investigation.
15. Fifty cases were closed or referred to Management soon after intake (after AUO had ascertained that the complaint was not within its investigative mandate); 29 were closed after a preliminary assessment (after ascertaining that the allegations were not material, verifiable or credible); and 12 were closed after an investigation. Of these, seven were closed with the allegations not substantiated; two cases had some elements substantiated and were reported on in 2021 but the remaining allegations were not substantiated and the cases were closed in 2022; and five external cases were substantiated or partially substantiated. In 2022 these cases were escalated to the Sanctions Committee for deliberation. As noted above, one of the cases required two separate reports. Of the five cases, the Sanctions Committee applied sanctions for two of the cases in 2022 and three cases were still ongoing pending the final decision.

## F. Investigations closed in 2022

### Cases referred to the Sanctions Committee or to the Human Resources Division (HRD)

16. The external cases referred to the Sanctions Committee in 2022 were as follows:
  - Two bidders were found to have committed fraudulent practices by submitting falsified commercial test reports in their bid proposals for a tender by an IFAD-funded project. In addition, the bidders submitted notarized affidavits in which they claimed authenticity of the documentation. Two firms and three individuals were debarred for 10 years for fraudulent practices.
  - An IFAD consultant failed to declare ongoing employment upon signing consultancy contracts with IFAD, and continued to actively perform functional roles with a consultancy firm. The individual provided inputs to a technical proposal submitted by the consultancy firm to an IFAD-funded project while holding an active IFAD consultancy contract in support of the same project; furthermore, the consultant failed to disclose a potential conflict of interest to IFAD when the consultancy firm participated in the IFAD tender. The individual was debarred for three years.

- A project supplier, an implementing partner representative and an IFAD-funded project staff member engaged in collusive and corrupt practices by offering and receiving payments, and facilitating the transfer of such payments, in order to favour this supplier in connection with its contractual obligations. The final decision of the Sanctions Committee is still pending.
  - Two companies engaged in prohibited practices. The first submitted fraudulent information on its financial capacity as part of its bid for tender in relation to an IFAD-funded project. The second company submitted a fraudulent manufacturer's authorization document to the same tender process. The final decision of the Sanctions Committee is still pending.
  - A project staff member engaged in fraudulent practices in a procurement process for an IFAD-funded project by: representing to IFAD that the requested documents submitted by a supplier were duly verified; and submitting to IFAD falsified documents. The final decision of the Sanctions Committee is still pending.
17. AUO investigations concluding that staff members may have violated the Code of Conduct are referred to HRD for assessment/confirmation together with the Office of the General Counsel. Depending on the nature and gravity of the violations, they may be referred to the Sanctions Committee for further assessment and deliberations on disciplinary recommendations. In 2022 no cases relating to staff members were referred by AUO to HRD.
18. All sanctions applied or decided in 2022 are listed in box 2 below:

Box 1

**Sanctions applied in 2022, including for investigations closed prior to 2022**

<p><b>Investigations completed prior to 2022</b></p> <ul style="list-style-type: none"> <li>• Two individuals and a firm were debarred for two years for fraudulent practices;</li> <li>• Two individuals and a firm were debarred for 10 years for fraudulent practices;</li> <li>• An individual was debarred for eight years for fraudulent practice;</li> <li>• An individual was debarred for four years for fraudulent practice;</li> <li>• An individual and a firm were debarred for 10 years for fraudulent practices;</li> <li>• Two individuals and a firm were debarred for 10 years for fraudulent practices;</li> </ul> <p><b>Investigations completed in 2022 (see paragraph 17)</b></p> <ul style="list-style-type: none"> <li>• An individual was debarred for three years for violation of IFAD's contractual obligations</li> <li>• Two firms and three individuals were debarred for 10 years for fraudulent practices</li> </ul>
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**Cases closed by AUO after an investigation**

19. Seven cases were closed at the investigation stage as not substantiated. Of these, five were external, one internal and one internal/external. For two of these cases, some allegations were substantiated in 2021; however, the investigation of the remaining allegations was completed in 2022 with a closure (not substantiated).

**External cases**

20. AUO generally pursued an investigation (generally through remote actions) if the alleged activities raised significant integrity issues for key project management employees and commonly used vendors, even if the amounts involved were small. Even when not substantiated, the work on such cases often led to risk mitigation actions such as strengthening fiduciary supervision, strengthened project controls or objecting to specific procurement actions.
- The allegations concerned vendors of an IFAD-funded project agreeing to inflate their bid prices and, in case of contract award, paying kickbacks to the government officials. In turn, the government officials requested bidders to inflate their bid prices and, in case of contract award, pay kickbacks. AUO did not find sufficient evidence to prove the allegations.

- Alleged fraudulent practices by microfinance agencies (serving as project implementing partners) suspected of having misrepresented credit disbursements. The allegations were not substantiated and had very limited materiality.
- Alleged fraudulent practices by personnel from microfinancing partners involved in an IFAD-funded project, who allegedly took credits for their own benefit or the benefit of other individuals and/or organizations, and misrepresented credit files. The allegations were not substantiated.
- Alleged fraudulent practices involving government officials submitting falsified travel documents in relation to a pre-implementation support mission for an IFAD-funded project. Although there were indications of fraud, there was insufficient evidence to prove responsibility and no evidence of cash payments received directly by the government officials.
- The allegations involved collusive practices by a project contractor and two project employees, who allegedly approved the improper replacement of several of this contractor's consultants during contract implementation. The evidence obtained was not sufficient to substantiate or corroborate the allegations.

#### **Internal**

- A staff member may have submitted false documentation following participation in an official activity. The case was closed due to insufficient evidence but a recommendation for an operational action was issued to appropriate Management.

#### **Internal/external**

- The allegations involved fraudulent, collusive and corrupt practices by project employees and contractors, IFAD staff and public officials. As part of its investigation, AUO found some indications of a potential corrupt scheme in connection with contractors' respective engagements under an IFAD-funded project, however, the evidence obtained was not sufficient to substantiate the reported allegations.

### **G. Cases closed after a preliminary assessment**

21. Of the 29 cases closed after preliminary assessment, 19 were external (of which two were high priority), seven internal (of which all seven were high priority) and three were both internal and external. Closure at this stage means that AUO's review did not generate sufficient evidence to conclude that the allegations were credible, verifiable and material. Many of the complaints included several allegations, often involving several potential subjects. A summary of the cases closed after a preliminary assessment is provided below. Some cases involved allegations related to both procurement and non-procurement.

#### **External cases**

- **Project procurement or selection of service providers.** Of the 19 external complaints closed by AUO after a preliminary assessment, six included allegations of prohibited practices in relation to project procurement and selection of service providers. The subjects of the allegations included project employees, suppliers, project contractors or potential contractors, and members of project/counterpart bid evaluation committees. The alleged irregularities included fraud, collusion and coercion in manipulating the tender or selection process, offering or receiving bribes and generic corruption allegations. One case involved project employees allegedly conspiring with bidders by pre-filling quotations and ignoring irregularities in the quotations provided by the bidders. Most allegations were generic or vague but a few cited specific procurement actions (ongoing or recently completed) with values ranging from a few thousand United

States dollars to over US\$200,000. As noted above, the evidence gathered by AUO in assessing these allegations was not sufficient to conclude that the allegations were credible and verifiable (by AUO) and material. These cases were therefore not pursued as full investigations. Nonetheless, for those cases where AUO had some credible indications of prohibited or other inappropriate practices (such as non-compliant or non-transparent procurement practices), alternative risk mitigation actions were either ongoing, had been taken or were being considered. Such actions included parallel national investigations into the same allegations; cancellation of a procurement process; strengthened IFAD supervision, in particular ensuring that all bidders use standard templates and complete the necessary disclosures; and targeted capacity-building.

- **Alleged prohibited practices not directly related to procurement.** Thirteen complaints included allegations of improper practices in relation to project activities other than project procurement. The alleged irregularities included fraud, i.e. fraudulent practice during the processing of a withdrawal application, payment of salary before contract start date, non-compliance with financing agreement requirements regarding contract duration, salary categorization grid and scale, diversion of project funds for personal gain (including attempted embezzlement, theft and misappropriation), collusion (e.g. project employees colluding to manipulate a recruitment process for positions by setting an age limit to exclude competition from certain applicants, grant recipients colluding with project employees in order to receive a grant, undeclared conflicts of interest and parallel commercial interests), coercion (withholding due payments), misuse of project assets for personal benefit, misrepresentation of information in grant applications, nepotism and generic fraud or corruption allegations involving unidentified subjects or actions. The subjects of the allegations included project employees, counterpart staff, project contractors and implementation partners or subcontractors and, in some cases, beneficiary organizations and potential grant recipients. Most allegations were generic or vague but a few cited specific actions. Although these cases were closed by AUO, alternative risk mitigation actions have been taken or are being considered for those cases where AUO/IFAD found credible indications of inappropriate practices. Such actions included parallel national investigations into the same allegations, refund of potentially misused funds and declaration of ineligible expenditures, strengthened project controls, IFAD declaring its objection to certain actions, strengthened IFAD supervision and targeted capacity-building, corrective actions regarding irregular practices in recruitment processes, and monitoring of ongoing verification and approval processes pertaining to identified grant recipients.

#### **Internal and mixed cases**

- **Alleged violations of the Code of Conduct and IFAD anticorruption policy.** Ten complaints against staff members were closed by AUO after a preliminary assessment. These included allegations of fraud, corruption, collusion, undeclared conflicts of interest, misrepresentation of information to the Fund, unauthorized disclosure of IFAD confidential information, circumvention of rules and regulations, inappropriate behaviour towards project employees and other external parties, and gross negligence. AUO found that these allegations lacked credibility and, in some cases, referred the matter to Management to consider corrective measures and/or other operational actions.

#### **H. Cases closed at the intake phase**

22. Fifty issues reported to AUO were closed at the intake stage (including eight carried forward from 2021) mainly after ascertaining that the allegations did not fall within AUO's mandate or were of a very limited materiality (in terms of both financial and

reputational/operational impact). Most of the matters were transferred to Management for follow-up action, including complaints relating to project recruitment, application of project procurement procedures, and five cases of fraud by individuals with no contractual relationship with IFAD for which three were referred to Management to issue a cease-and-desist order.

#### **IV. Outreach and cooperation**

23. AUO contributed to anticorruption awareness-raising through online e-learning training, updated web pages (now available in all IFAD official languages), induction of new staff, project procurement training, start-up workshops, financial management workshops and regional events. Over 350 staff and non-staff completed the mandatory online training throughout the reporting year, with 90 per cent of IFAD staff having successfully completed by year-end, and over 700 participants receiving training at workshops and regional events.
24. The AUO audit and investigation teams supported the Operational Policy and Results Division and PMD, with the roll-out of IFAD's standard procurement documents for bidders and contractors of IFAD-funded projects, including self-certification forms. AUO further supported the negotiation of financing agreements with donors and recipients to ensure alignment with the IFAD anticorruption policy.
25. AUO actively participated in United Nations and IFI investigation peer networks, including co-chairing an annual meeting of the multilateral development banks. The AUO Investigation Manager was elected as Coordinator of the United Nations Representatives of Investigation network for a two-year term starting in 2023.

#### **V. AUO capacity, staff and resources**

26. **Staffing.** AUO's staff capacity has been reinforced in recent years with the addition of several new Professional positions. However, AUO experienced unprecedented staff turnover in 2021/2022, with the departure of eight of the current 15 staff that joined in 2021. The high turnover continued in 2022 with two investigators and the data analyst leaving IFAD during the year. The capacity of the investigation team was supplemented in 2022 with long-term investigation consultants and other external expertise and services. The staffing of the AUO audit team was stable in 2022 and was further strengthened with the addition of an associate audit officer towards the end of the year. External, local, regional and technical expertise was extensively used to complement the skills set of the team in ensuring that AUO had the right expertise and knowledge for a credible assessment of the audited subjects.
27. AUO staff received professional training on a wide variety of topics that demonstrate the breadth of the division's footprint. Training was provided on "auditing at the speed of risk" with other Rome-based agency colleagues; audit sampling; personal data privacy; IFAD project procurement; probity in procurement; credit risk; data analytics; geospatial tools; investigation; along with the mandatory IFAD training courses and personal professional education. Professional updating also occurs through participation in the United Nations and IFI audit and investigation professional networks and working groups as well as personal board involvement of two AUO staff members in the United Nations Joint Staff Pension Fund and the United Nations Federal Credit Union.

Table 3  
**AUO staffing in December 2022**

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*Staff positions*

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Director, AUO  
 Administrative assistant (0.5 full-time equivalent)  
 Data and IT Forensic Officer (vacant at year-end)

<u>Internal Audit</u>	<u>Investigations</u>
Audit Manager	Investigations Manager
Senior Audit Officer	Senior Investigation Officers (2, of which 1 vacant at year-end)
Audit Officers (2)	Investigation Officers (3, of which 2 vacant at year-end)
Associate Audit Officers (2)	Investigation Assistant
Audit Associate	

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28. **Budget.** The total budget allotted to and used by AUO in 2022 was US\$2.59 million, inclusive of staff costs of US\$2.14 million and of US\$0.44 million for non-staff expenditures. This latter amount includes an additional non-staff budget allotment of US\$0.12 million provided promptly in response to AUO’s request during the year to meet operational needs.