



2014 Annual Report on Investigation and Anticorruption Activities

27 April 2015

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Summary

1. In line with its mandate, 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 in 2014. It also supported effectively IFAD's risk management efforts by focusing on areas of increased relevance to the Fund's evolving operational and financial model and by ensuring a timely and effective response to alleged wrongdoing.
2. A notable trend in the AUO investigation caseload in 2014 was the decrease in misconduct complaints being referred to AUO. This can be attributed to the more effective informal and formal resolution mechanisms and improved awareness of the standard of conduct expected of IFAD staff at all grades and levels. AUO joined forces with the Ethics Office to sensitize managers on lessons learned from harassment cases and conducted an intensive anticorruption awareness campaign involving several events that reached both project and counterpart staff.
3. The IFAD investigation and sanctions processes were reviewed in the latter part of 2014 by an external team of experts. The general conclusion is that IFAD's existing investigations/sanctions framework is adequate to address standard issues, situations and cases and that AUO has successfully ensured that investigations and their outcomes are implemented and processed professionally, as quickly as possible, and to the appropriate standard. The review included valuable recommendations to ensure that IFAD's practices remain aligned with best practices in the United Nations system and international financial institutions (IFIs). Furthermore, AUO is working closely with Management to formulate and implement an appropriate action plan.
4. As in prior years, AUO actively participated in and contributed to United Nations/IFI professional network events. Particularly strong cooperation was achieved with the World Food Programme (WFP) and FAO through joint training and staff networking activities, active coordination among audit and investigation team leaders, and joint initiatives within the wider United Nations/IFI community.
5. AUO staff capacity was adequate to meet oversight responsibilities in 2014, with the support of a temporary investigation officer, several consultants and interns. AUO was provided with additional financial resources as needed to ensure that the investigative and audit work was conducted with the required independence and without limitations in scope.

AUO investigation mandate and method

6. AUO and IS are mandated to investigate alleged irregular practices, namely: (i) fraud and corruption in relation to entities, contractors and non-staff individuals applying for or participating in an IFAD-financed project or headquarters-related contract; and (ii) staff misconduct, including alleged harassment, abuse of authority, retaliation and conflict of interest. IFAD's investigation and sanction practices are aligned with best practices applied in this area by other United Nations agencies and the major multilateral development banks.
7. AUO/IS investigations are administrative in nature and their objective is to gather evidence that may either corroborate or refute an allegation. AUO/IS also investigates when there are indications that malicious or deliberately false information has been reported.
8. Upon receipt, every allegation is subject to a preliminary assessment. If it is found that the allegation falls within the mandate of AUO, a risk 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 remedial 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 a preponderance of evidence is found to indicate 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 where a preponderance of evidence is found to refute the allegation(s).
9. 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.

Investigation activities in 2014

Investigation caseload in 2014

10. Caseload for 2014. AUO handled 56 active cases in 2014, 19 of which were carried forward from 2013. At the end of the year there were eight open cases.

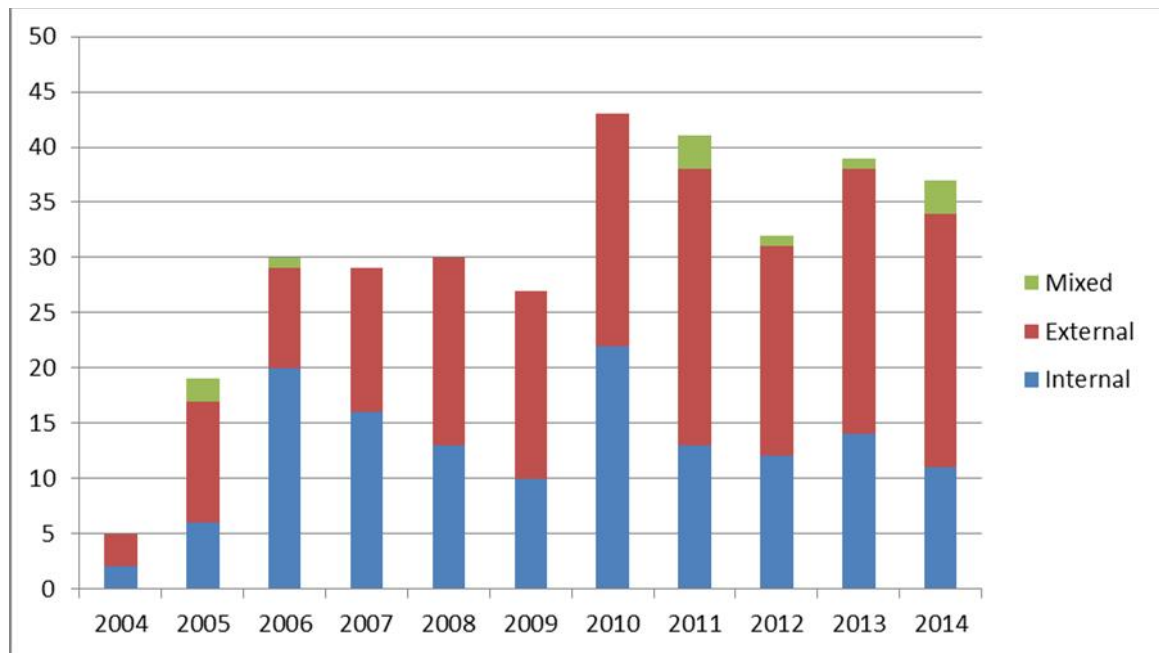
Table 1

Active investigation cases in 2013-2014

	<i>Internal</i>	<i>External</i>	<i>Internal/ external</i>	<i>Total</i>
Cases pending at year-end 2012	5	14	1	20
Cases received/reopened in 2013	18	21	1	40
<i>Total active cases in 2013</i>	<i>23</i>	<i>36</i>	<i>1</i>	<i>60</i>
Cases closed in 2013	19	20	2	41
Cases pending at year-end 2013	4	15	0	19
Cases received in 2014	10	23	4	37
<i>Total active cases in 2014</i>	<i>14</i>	<i>38</i>	<i>4</i>	<i>56</i>
Cases closed in 2014	13	31	4	48
Cases pending at year-end 2014	1	7	0	8

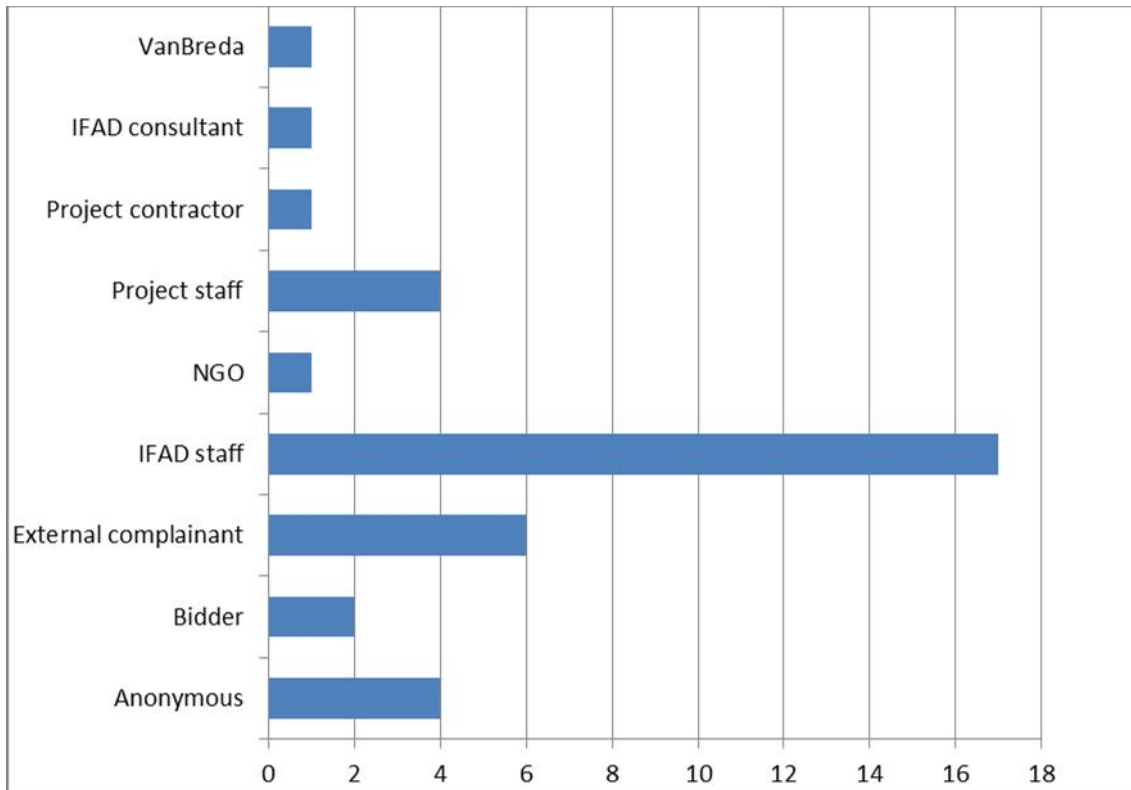
11. The number of project-related cases has been steadily increasing since 2012; in 2014 project-related cases accounted for almost two thirds of the total allegations received. The number of staff cases, on the other hand, has decreased significantly compared to 2013 (figure 1).

Figure 1
Allegations reported to AUO (2004-2014)



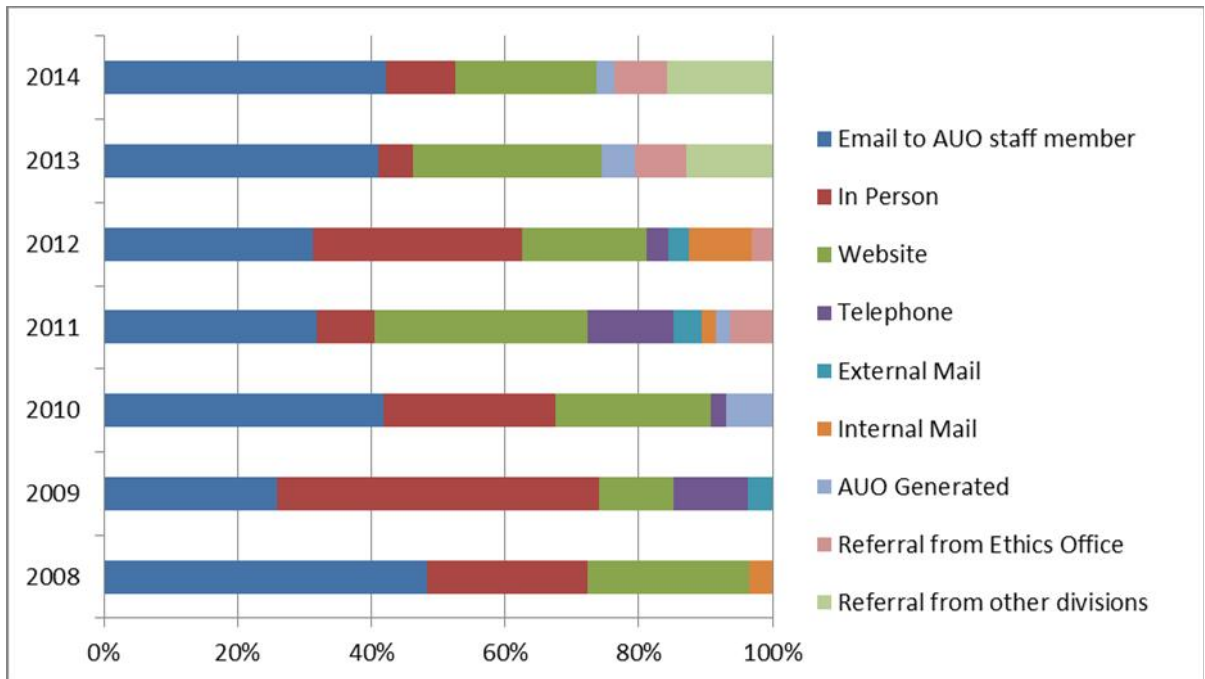
12. The incidence of new allegations is influenced by many factors and is not predictable. The increasing trend in project-related cases could be an indication that the anticorruption outreach activities targeting country office and project staff conducted recently are having an impact. The decrease in staff cases could be due to various factors, for example a better understanding of expectations in relation to staff conduct following corporate training initiatives (on the IFAD Code of Conduct and anti-harassment policy, for example), as well as the role of the Ethics Office in the informal resolution of potential staff issues.
13. Source of allegations. The source pattern of complaints was similar to that of past years (see figure 2), with a slight increase in the number of IFAD staff and project staff reporting allegations.

Figure 2
Source of allegations received by AUO in 2014



14. In 2014 there was a slight increase in cases being reported in person, and a slight decrease in the cases reported through IFAD's anticorruption website/e-mail (see figure 3). For the last two years, probably because of the availability of other mechanisms and better technology, complaints have not been communicated by telephone or by post.

Figure 3
Channels for reporting allegations (2008-2014)



15. 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 37 allegations received in 2014, 23 were external, 10 internal and four were mixed. Table 2 provides information on the nature of allegations received in 2014.

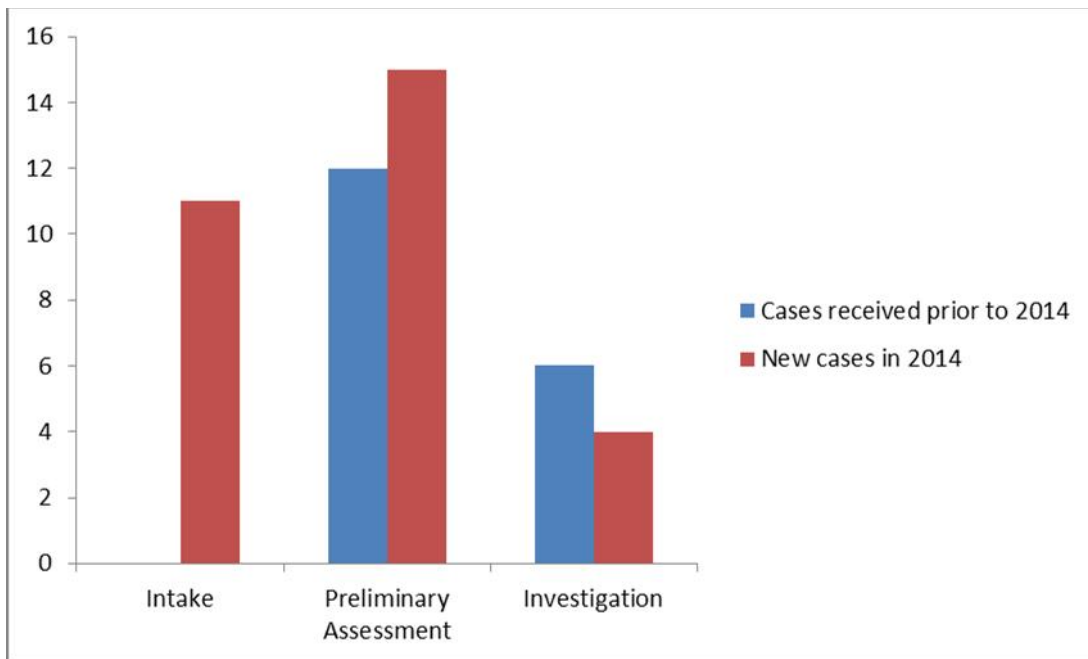
Table 2
Nature of allegations received

<i>Nature of allegation</i>	<i>Number</i>	
	<i>2014</i>	<i>2013</i>
External		
Fraud	10	10
Corruption, kickbacks, extortion, bribery, collusion	4	1
Conflict of interest	1	
Other	1	5
Mixed (corrupt/fraudulent/collusive/coercive practice)	7	8
External/Internal		
Corruption, kickbacks, extortion, bribery, collusion	1	
Mixed (fraudulent/collusive practice /conflict of interest)	3	1
Internal		
Harassment/ sexual harassment	3	5
Fraud	2	3
Coercion/collusion	2	
Other misconduct	3	6
Total	37	39

Investigations closed in 2014 and sanctions imposed

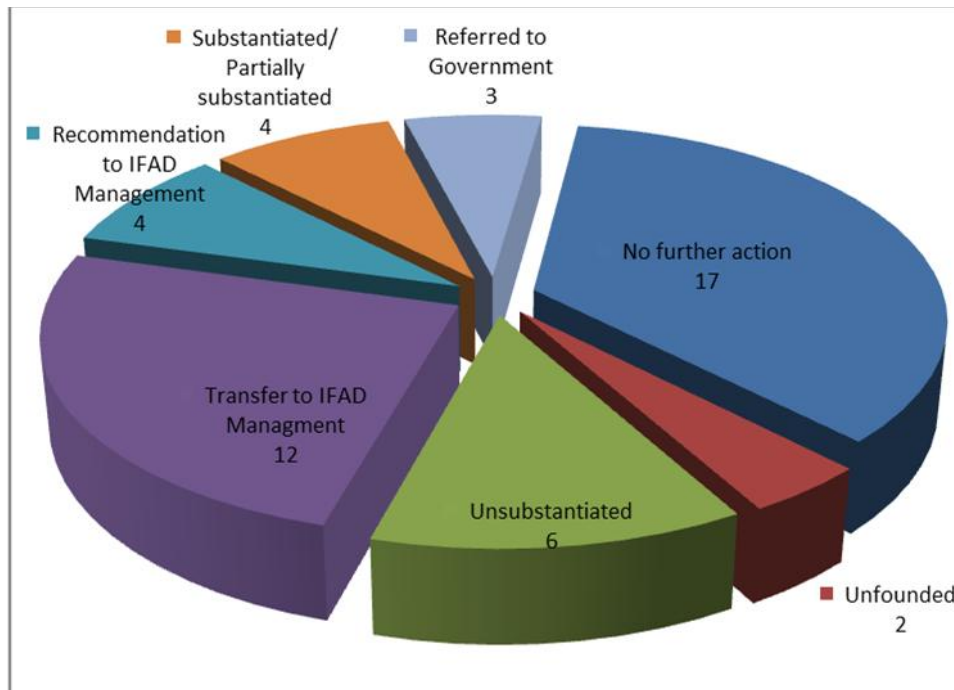
16. In 2014, AUO completed its work on 48 cases. Of the closed cases, 11 were closed at the intake phase, i.e. after ascertaining that the complaint received did not fall under AUO’s investigative mandate. Six of these complaints did not relate to IFAD staff or activities funded by IFAD. Three others dealt with allegations related to project management and were referred to the relevant division of the Programme Management Department (PMD); one related to staff management and was referred to the relevant supervisor/division; and the last was referred to the Ethics Office.
17. A total of 27 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 opened in 2014. This 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 the Controller’s and Financial Services Division (CFS) staff; supervision or other types of ongoing missions conducted in the field; and counterpart agencies and governments. In seven of the cases closed at the preliminary assessment phase, AUO was unable to proceed further because the initial complainant could not be contacted or refused to provide additional information to AUO, creating a major obstacle in verifying the allegation and assessing its credibility and materiality. In four other cases, extreme circumstances – including civil unrest/war, the recent Ebola outbreak and the unavailability of a key witness due to serious illness – prevented the further investigation of the complaints. Finally, a case relating to recruitment irregularities was closed when, on further investigation, AUO determined that the complaint did not relate to an IFAD staff member or IFAD-funded activity.
18. Ten cases were closed at the investigation stage; four of these were opened in 2014 (see figure 4).

Figure 4
Cases closed in 2014 – Phase at closure



19. Where necessary, closed cases were referred for action to PMD, the Human Resources Division (HRD), CFS or external entities and actively monitored by AUO for follow-up action. Figure 5 shows the disposition of these cases.
20. In conformity with its mandate, the Sanctions Committee reviewed, in April 2014, all cases closed by AUO during the previous year.

Figure 5
Cases closed in 2014 - Case disposition



21. Cases leading to disciplinary or corrective measures. In 2014, six cases were submitted to the Sanctions Committee. These were substantiated and led to the application of sanctions or disciplinary actions. As investigation of two of the cases had been completed in 2013, these were included in the annual report for 2013. Of the remaining four, three were internal cases. Two of these were referred to AUO by

the Ethics Office.

- One case involved an allegation of harassment and abuse of authority against two supervisors. The investigation concluded that one of the subjects had engaged in unacceptable behaviour by creating a hostile working environment for some staff members in the division. The other subject was found to have not taken appropriate managerial action to prevent the creation of a hostile working environment. The President issued a written reprimand to both staff members for unacceptable behaviour.
 - An allegation of sexual harassment by a staff member towards another following an IFAD event was investigated by AUO and substantiated. The staff member was summarily dismissed.
 - The third internal case involved a staff member who was found to have provided false information to AUO during the course of an earlier AUO investigation. The staff member was formally reprimanded and was warned that any subsequent misconduct could lead to dismissal.
 - An external case concerned a procurement activity in an IFAD-funded project. The allegation was of fraudulent practices in submitting inauthentic documentation in order to satisfy the bid requirements of a contract during a tender process. The investigation substantiated the allegation and the Sanctions Committee decided that the company would be debarred for a period of two years.
22. Cases that did not lead to sanctions. Of the cases that proved to be unfounded or unsubstantiated, certain issues and risk factors were identified and communicated to the relevant divisions.
- Cases closed after a preliminary assessment:
- Five cases (two external and three internal) related to IFAD grants and highlighted some risks in the selection of grant recipients and in the implementation and management of grants; these risks were communicated to the relevant divisions and are also being considered by IFAD Management during the current revision of grant procedures.
 - Another case, which was referred to HRD, highlighted the need for clarity on the issue of recognized academic credentials in consultant recruitment. This is now being addressed through the issuance of new guidance on the administration of consultant arrangements.
 - A complaint relating to allegations of violations of the recruitment procedures and collusion between IFAD staff and government in the appointment of key programme staff was closed when AUO found the allegation to be without basis. The appointment process followed had been specifically foreseen in the financing agreement, and there was no indication of impropriety or collusive practice surrounding the appointments.
 - Another allegation claimed that project staff had been paid allowances relating to an event that they did not actually attend. The information was verified during an IFAD audit mission to be inaccurate and the case was closed as unfounded.
 - A complaint against a staff member for the unauthorized acceptance of a gift and the acceptance of a bribe from a vendor was closed as unfounded after preliminary verification.
23. In line with the practices of other IFIs, IFAD does not take action directly against government officials. However, it demands appropriate government action where officials are found to have engaged in irregular practices in relation to IFAD-funded activities. IFAD also monitors the implementation of such actions before programme activities can resume. In five cases, the allegations concerned staff of the recipient government and were referred to another organization or government that had already launched investigations. In such circumstances, AUO either works jointly with

the other recipient or awaits the results of the external investigation while simultaneously carrying out its own independent analysis. If the outcome of the other party's investigation and the remedial action taken are satisfactory to IFAD, the case can be closed as no longer presenting any risk to IFAD and therefore no longer requiring any further action on IFAD's part.

- An allegation concerning project staff being involved in procurement irregularities that resulted in higher payment to the vendor was closed after an investigation was undertaken by the counterpart ministry and IFAD was satisfied that the necessary steps had been taken to remedy the irregularities (including renegotiating the contract).
 - In another case regarding irregular transactions by a project manager, the allegation was verified through an audit report and appropriate action was taken by the government to recover the lost funds and to ensure that the manager no longer worked for the project.
 - A case regarding the possible falsification by an employee of a partner institution of documents relating to the purchase of various goods was closed after AUO established that: the government had taken satisfactory action; the individual in question was no longer involved with IFAD activities; and the government ensured that the ineligible amount was refunded.
 - An allegation was made regarding overcharging by vendors, with the participation of project staff. The case was closed by AUO after preliminary assessment and referred to the government, which took measures against the project staff involved.
 - In another allegation of misuse of project funds, it transpired that the allegedly misused funds were not IFAD funds. AUO referred the issue to the relevant counterpart government.
24. In addition to the investigations that resulted in sanctions, AUO completed six full investigations that did not result in a finding of misconduct or breach of the IFAD anticorruption policy.
- An IFAD consultant was alleged to have been employed at the same time by both IFAD and a project implementing partner, and to have received payment for performing both assignments contemporaneously. In the same case, a staff member was accused of abuse of position and preferential treatment towards the consultant. The allegations were not substantiated but AUO did identify issues regarding potential conflict of interest and its disclosure. These are being referred to IFAD Management for consideration and are also being addressed through the revision of the IFAD procedures for administration of consultant arrangements.
 - An investigation into allegations of collusive practice and conflict of interest in a project procurement exercise concluded that no procurement rules had been violated. AUO found that there were reasonable grounds for the complainant's exclusion from the procurement process. AUO issued its findings to the recipient government and recommended that it consider clarifying certain national procurement rules that had led to the filing of the complaint.
 - Allegations of collusion and fraud in a procurement process in a grant-funded project were submitted both to IFAD and to the awarding institution. The institution conducted its own independent investigation. Although the alleged violation was not substantiated, the investigation confirmed conflict of interest violations and disciplinary action was taken against the individuals involved. Furthermore, the recipient institution implemented specific improvements to its disciplinary process and to its policy for the procurement of goods and services. AUO was satisfied that the entity had responded to the allegations with diligence and that no IFAD funds had been compromised through irregular practices.

- An investigation into allegations of corrupt practices in an IFAD-funded project was conducted jointly with the national audit office of the recipient Member State. Following interviews with key witnesses and a review of the documents, the investigation did not find sufficient evidence of fraudulent or corrupt practices. However potential violations of national regulations were noted relating to the use of counterpart funds. Accordingly, AUCO referred the matter for follow-up by the government and kept the relevant IFAD divisions informed of any developments that could have operational implications.
- During a review of an unsubstantiated complaint of favouritism and conflict of interest, AUCO identified issues relating to the contracting procedure for consultants and the determination of staff benefits. These concerns were referred, with recommendations, to the relevant divisions for consideration.
- AUCO completed an investigation of a formal complaint forwarded by the Ethics Office regarding an allegation of harassment by a staff member. The allegation was of a violation of IFAD's provisions against harassment relating specifically to the reckless propagation of a particularly offensive and malicious rumour. AUCO did not substantiate the allegation.

External review of IFAD investigative and sanctions processes

25. The first external review of IFAD's investigation and sanctions processes was conducted in 2006 and led to a reform of IFAD's procedures. In recent years the peer/external review of the investigation function has become recommended best practice in the evolving United Nations/IFI investigation community. A second review was therefore conducted in 2014 to provide independent assurance of the quality of the investigation/sanctions guidelines and help align the IFAD processes with best practice in the United Nations/IFIs community. The review was conducted by two external experts from the World Bank and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) with extensive experience in the subject matter. They evaluated the IFAD investigation and sanctions processes and practices vis-à-vis best practices as applied by multilateral development banks and United Nations agencies. The scope included: (i) the roles, responsibilities and authority of AUCO and the Sanctions Committee and any other internal entity involved in investigation/sanctions-related tasks; and (ii) the formal framework, procedures and practices for fact-finding investigations, including the standard of proof, due process and other obligations vis-à-vis staff members and external entities for applying sanctions.
26. The final report was issued to the President in January 2015 and included the following conclusion paragraph:

CONCLUSION

Overall the Review Team was satisfied that IFAD's existing investigations/sanctions framework is adequate to address standard issues, situations and cases. In addition, the current staff of AUCO have successfully ensured that investigations and their outcomes are implemented and processed professionally, as quickly as possible and to the appropriate standard. In addition, IFAD has been able to contain the fall-out of cases within the institution.

The observations and recommendations identified above by the Review Team are designed to build on this solid foundation with the aim of integrating recent lessons learned from other institutions, closing existing entry points for litigation, and fortifying IFAD's frameworks in a multipolar and increasingly confrontational environment while at the same time improving IFAD's and AUCO's ability to identify and defuse integrity risks earlier and to professionally counter potential and often sudden pressure from third parties and the public.

27. The report, along with its findings and recommendations, is currently being assessed

by AUO and IFAD Management. An action plan will be put in place to implement the accepted recommended actions and AUO will report to the Committee on the recommendations and implementation progress in its midyear progress report.

Outreach and other external activities

28. AUO continues its awareness-raising activities with emphasis on reaching IFAD staff working in the field and project staff. The activities undertaken in 2014 included presentations during procurement training held in Nairobi, Kenya, for the East and Southern Africa Division (ESA) and West and Central Africa Division (WCA), and a regional implementation workshop in Zambia, for ESA project and counterpart staff. At IFAD headquarters, presentations were held during the Global Staff Meeting, an IFAD corporate induction course, two corporate supervision training programmes organized by the Near East and North Africa and Europe Division and WCA, and field procurement training. Throughout 2014, AUO worked with various divisions to provide advice on fraud or corruption prevention and collaborated effectively with departments and divisions such as PMD and CFS to identify and understand current red flags and prevent risks in the future. AUO joined forces with the Ethics Office to present lessons learned from harassment cases to the IFAD Management Team.
29. AUO attended the main annual audit and investigation network events of the United Nations and IFI community (Conference of International Investigators and Meeting of Representatives of Internal Audit Services) and contributed to the establishment of the United Nations Representatives of Investigation Services group which brings together the heads of investigation and oversight functions of the United Nations organizations. AUO was also represented at the third Biennial Meeting of the World Bank Group's International Corruption Hunters Alliance (ICHA) which was held in Washington, D.C. These events provided the opportunity to further strengthen IFAD's partnership with IFI and United Nations colleagues and with anticorruption practitioners from IFAD Member States.
30. As in previous years, AUO staff attended joint training activities together with staff of other United Nations agencies. AUO staff attended the annual joint session of the Rome-based agencies' oversight functions, which was hosted by FAO and was attended by the internal oversight staff of the three agencies. The meeting was an opportunity for knowledge-sharing and identifying opportunities for cooperation and alignment of policies. The heads and senior officers from the three agencies continued to meet periodically.

AUO staff and resources in 2014

31. For 2014, AUO had eight Professional/director-level positions and two and a half General Service (GS) positions. The AUO Audit Section had three Professional staff, two short-term interns and one GS staff member. The AUO Investigation Section had two Professional staff members, a temporary Professional staff for six months and one GS staff member. Consultants were used for both audit and investigation activities to augment AUO capacity with needed expertise for specific assignments.
32. AUO's budget allocation for 2014 was US\$2.0 million, including additional resources provided by Management to AUO to retain additional capacity for the investigations area.