



Enabling poor rural people
to overcome poverty

2012 Annual Report on Investigation and Anticorruption Activities

Contents

Executive summary	i
I. AUO investigation mandate and method	1
II. AUO staff and resources in 2012	1
III. Investigation activities in 2012	1
IV. Investigations closed in 2012 and sanctions imposed	4
V. Implementation of the anticorruption policy	6

Executive summary

1. IFAD's investigative and anticorruption activities aim to ensure that development funds reach intended beneficiaries in the most efficient, effective and transparent manner possible. Fraud and corruption divert resources away from the people who need them most. The goal of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (EB 2005/85/R.5/Rev.1) is the prevention of fraud and corruption within the Fund itself and in activities financed by IFAD at local, national, regional and international levels.
2. The Office of Audit and Oversight (AUO) and its Investigation Section (IS) have been 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.
3. AUO faced a significant challenge in 2012 in handling the growing investigation caseload, with 75 active cases in 2012 as compared to an average of 47 cases in the previous three years, and the ongoing staff turnover in AUO/IS following the resignation of the investigation officer in February 2012. The recruitment of a second investigation officer in July and additional resources provided by Management for external investigation expertise led to a significant reduction in the caseload to a more manageable 20 open cases at year-end.
4. The number of new complaints received by AUO in 2012 was slightly lower than in 2011 (33 against 41 in 2011), primarily reflecting a decline in project-related allegations. This trend could be an indication that the improved fiduciary mechanisms put in place by the Fund in the last two years (such as the segregation of operational and financial project responsibilities and the establishment of the Ethics Office) are having an impact (no new harassment allegations were referred to AUO in 2012 for investigation). It could also point to the need for wider outreach and awareness of anticorruption activities. Proactive awareness-raising activities by AUO/IS were restricted to headquarters-based activities in 2012 due to the very high active caseload.
5. The nature of allegations received varied widely and no specific trends were noticeable in relation to previous years. The number of walk-in complaints increased in 2012, primarily due to an increasing number of IFAD staff involved in project supervision approaching AUO directly to deal jointly and collaboratively with potential corruption situations in projects.
6. Several complex investigations were concluded in 2012, and disciplinary measures or sanctions were applied in five cases, four internal and one external (contractors of an IFAD-funded project). Most cases brought forward from 2011 were closed in 2012 at various stages of the investigative process without the allegations being substantiated. Several of these led to the issuance of suggested measures to Management to rectify weaknesses noted; others were referred to (or were being actively pursued by) counterpart authorities thereby eliminating the need for further AUO involvement.
7. As in previous years, AUO made presentations to IFAD and project staff on corruption and fraud awareness and provided anticorruption awareness material for distribution during project-related events.
8. AUO priorities in 2013 will continue to use its resources effectively while increasing its proactive efforts in promoting the IFAD anticorruption agenda.

I. AUO investigation mandate and method

9. AUO and IS have been 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.
10. 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.
11. Upon receipt, every allegation is subject to a preliminary assessment. If it is found that the allegation falls under the mandate of AUO/IS, an analysis of available information is conducted to determine whether it is appropriate to perform a full investigation, refer to Management for another remedial action, or catalogue for information. Should investigation be deemed appropriate, a risk assessment is performed to prioritize the allegation with respect to the existing caseload. An allegation may be determined to be better suited for referral to other IFAD divisions, outside agencies or governments, either at the preliminary assessment or after a full investigation by AUO/IS. 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).

II. AUO staff and resources in 2012

12. Investigative activities are carried out by the AUO/IS team with the support of external experts, under the general supervision of the Director, AUO. At December 2012, AUO had eight Professional/director-level positions, of which three were fully devoted to investigations. The AUO investigation officer resigned in early 2012 and two new investigation officers joined AUO during the year (one of whom on a newly established position). The investigation assistant position was vacant at year-end. A new IT auditor position, filled in October 2012, is expected to contribute to investigative work through forensic IT work.
13. The staffing changes negatively impacted the capacity of AUO/IS and several investigation consultants were engaged to help manage the very high investigation caseload.
14. AUO's budget allocation for 2012 was US\$1.707 million and additional resources of US\$216,000 were transferred to AUO during the year to support the funding requirement in the investigations area.

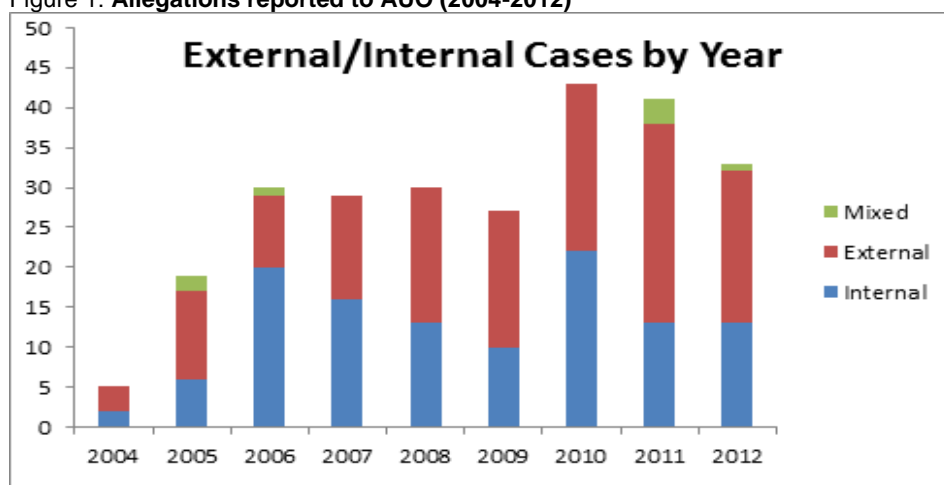
III. Investigation activities in 2012

15. **2012 caseload.** In 2012, AUO/IS handled 75 active cases – 42 carried forward from 2011 and 33 new complaints received in 2012 (table 1 and figure 1). The caseload was brought down significantly to 20 open cases at year-end (from 42 at the end of 2011).

Table 1: Active investigation cases in 2011/2012

	<i>Internal</i>	<i>External</i>	<i>Internal/ External</i>	<i>Total</i>
Cases pending from 2009/2010	3	15	0	18
Cases received in 2011	13	25	3	41
Total active cases in 2011	16	40	3	59
Cases closed in 2011	7	10	0	17
Cases pending at year-end 2011	9	30	3	42
Cases received in 2012	13	19	1	33
Total active cases in 2012	22	49	4	75
Cases closed in 2012	17	35	3	55
Cases pending at year-end 2012	5	14	1	20

Figure 1: Allegations reported to AUO (2004-2012)



16. In general, the incidence of new allegations is affected by many factors and is not predictable. The decreasing trend noted could be an indication that the improved fiduciary and ethics mechanisms put in place by the Fund in the last two years (such as the segregation of operational and financial project responsibilities and the establishment of the Ethics Office) are having an impact. On the other hand, it could point to the need for wider outreach and awareness of anticorruption activities and better communication channels. Proactive awareness-raising activities by AUO/IS were largely restricted to headquarters-based activities due to the very high active caseload in 2012.
17. **Source of allegations.** The source pattern of complaints (figure 2) was very similar to that of 2011. IFAD staff members constituted the majority of complainants in 2012 at 49 per cent (51 per cent in 2011), while project staff represented 6 per cent (as opposed to 5 per cent in 2011). As noted above, a contributing factor is probably the limited involvement of AUO/IS staff in field awareness activities in both 2011 and 2012. Allegations were reported primarily by e-mail or in person to AUO staff in 2012 (figure 3).

Figure 2: Source of allegations received by AUO in 2012

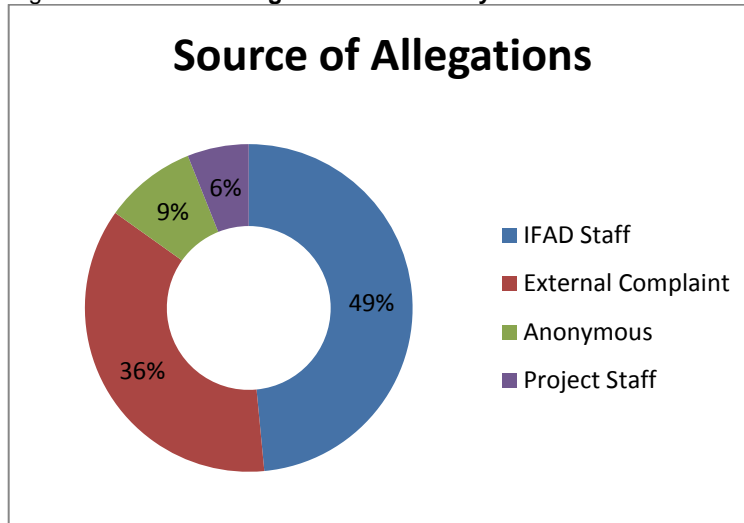
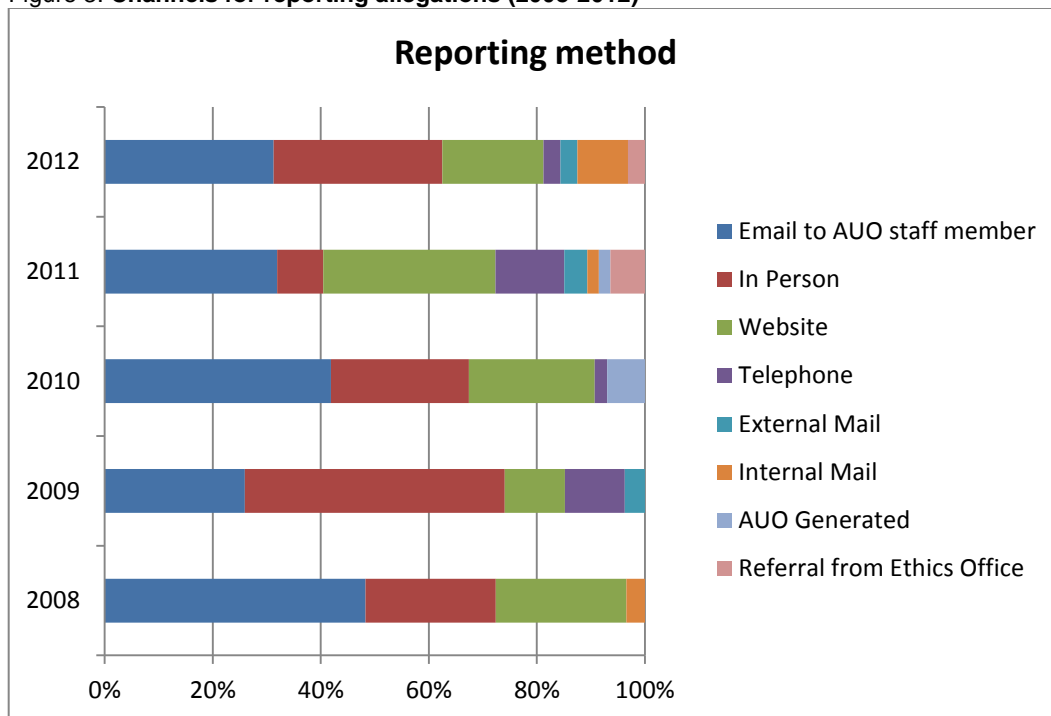


Figure 3: Channels for reporting allegations (2008-2012)



18. The significant rise in the number of walk-in allegations is attributable to an increasing number of country programme managers approaching AUO directly to deal jointly and collaboratively with potential corruption situations in projects under their supervision. In such cases, immediate measures are jointly agreed and adopted, such as specially commissioned audits, tailored fiduciary/supervision missions and requests for additional information/explanations from parties involved. In most cases such actions are sufficient to address effectively the risks highlighted.
19. **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 33 allegations received in 2012, 19 were external, 13 internal and 1

internal/external. Table 2 provides information on the nature of allegations received in 2012. IFAD defines fraud or fraudulent practice as any action intended to deceive another party in order to improperly obtain a financial or other benefit or avoid an obligation.

Table 2: Nature of allegations received in 2012

<i>Nature of allegation</i>	<i>Total</i>
Mixed (fraud, collusion)	1
External (corruption, extortion, collusion)	8
External (fraud)	7
Other (misuse of assets/position)	4
Misconduct (corruption)	1
Misconduct (fraud)	3
Misconduct (conflict of interest)	3
Misconduct (breach of confidentiality)	2
Misconduct (recruitment irregularities)	1
Other misconduct	3
Total	33

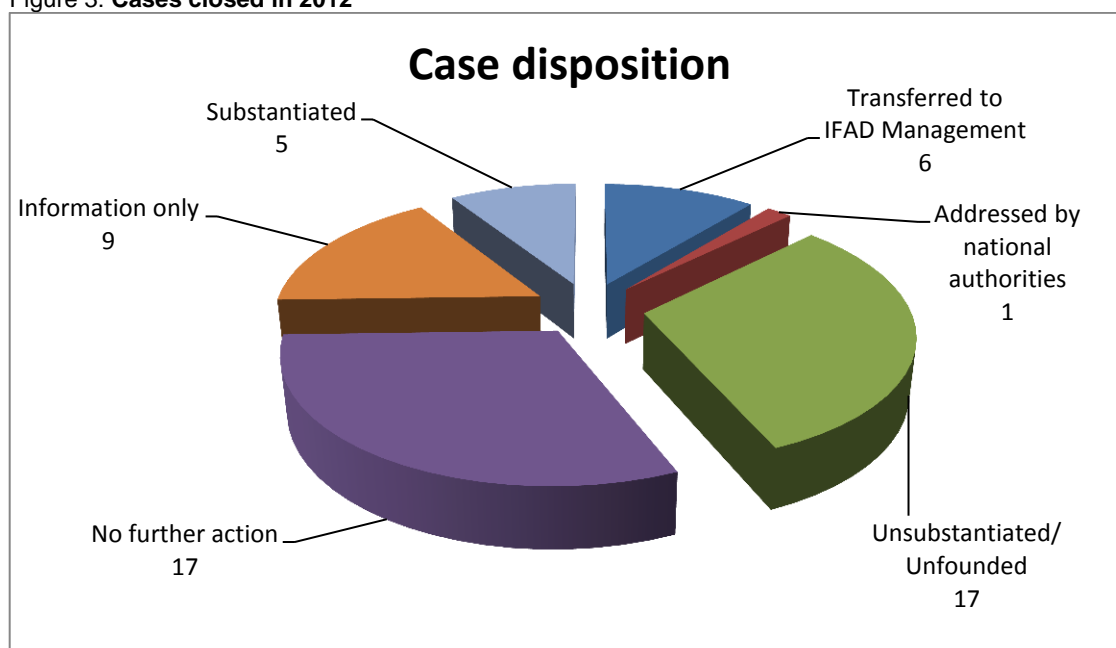
^a AUO/IS does not investigate procedural breaches or mismanagement per se in IFAD projects except where such procedural breaches or mismanagement are indicative of fraud and corruption, or of impropriety on the part of IFAD staff members.

- The Ethics Office was established in 2011 and acts effectively as a filter and mediation mechanism for alleged harassment. This new function serves in addressing issues at an early stage and this probably explains the absence of any harassment/abuse of authority allegations being referred to AUO in 2012.

IV. Investigations closed in 2012 and sanctions imposed

- In 2012, AUO completed its work on 55 cases: 17 were closed as unsubstantiated or unfounded, six were transferred to IFAD divisions, one was addressed by national authorities, nine were closed on intake and 17 closed with no further action. Five cases were substantiated and reported to the Sanctions Committee.

Figure 3: Cases closed in 2012



Cases may be referred to IFAD Management, IFAD divisions, governments or other appropriate entities.

22. Cases are reported as closed with no further action or for information only if the preliminary assessment or actions taken have led AUO to conclude that no further action on its part is warranted. Such cases include allegations that cannot be pursued for practical or logistical reason, for example when the report is made much later than the time of the alleged irregularity. They may also include cases jointly handled with other internal or external partners. As indicated above, AUO has engaged more collaboratively with the Programme Management Department in addressing project-related corruption concerns in 2012; joint actions undertaken in most cases have effectively addressed such concerns by rectifying or clarifying the corruption red flags and risks. In other cases, AUO is satisfied that the allegation is being pursued satisfactorily through the country's law enforcement mechanism and is simply being kept apprised of the matter should further irregularities or staff misconduct emerge.

Examples of external cases

23. An IFAD mission to a country programme in the Asia and the Pacific region revealed indications of collusive behaviour among bidders in a project procurement exercise. The ensuing AUO investigation substantiated the allegations of collusion in relation to procurement of construction services among three local companies. After taking into consideration aggravating and mitigating factors relevant to each company, the Sanctions Committee decided that IFAD would debar two of the companies for a three-year period and the other company for a two-year period.
24. Evidence of fraudulent behaviour regarding the procurement of vehicles, computers and office equipment was identified during an IFAD implementation support mission, with the possible involvement of the project director. Based on IFAD's request, the concerned ministry removed the project director and an independent audit was conducted with terms of reference drawn up in conjunction with AUO. The project was placed on hold pending the appointment of a new director, and the improper expenditures identified by the audit were declared ineligible.
25. An external audit of a project uncovered several cases of overpayments by the former chief accountant to former staff and civil works contractors. The relevant ministry asked the chief accountant to resign and fired the project director. The case has been referred to the public prosecutor's office of the country in question, and a large portion of the money that was misappropriated has been returned to the project. Given the successful referral to the country, AUO did not further investigate the matter but is monitoring the situation should any additional relevant finding come to light.

Examples of internal and mixed cases

26. IFAD was informed by the United Nations Office of Oversight Services that a security incident involving a senior IFAD officer had been referred to them. The allegation was one of offensive and inappropriate behaviour prompted by the circumstances surrounding the incident and incompatible with the standards of conduct expected from a senior IFAD staff member. The AUO investigation substantiated the allegations and the Sanctions Committee recommended and the President approved the dismissal of the officer concerned.
27. AUO received an allegation of misconduct on the part of an officer who was alleged to be misusing the tax-free privileges provided to him/her by virtue of his/her Professional status. Specifically some petrol coupons purchased by this officer at a tax-free price had been used for purposes other than for fuel for the designated owned cars. The investigation substantiated the allegation. Due to the very small scale of the abuse and the full cooperation of the officer concerned, the Sanctions Committee recommended and the President approved imposing the sanction of a verbal reprimand. A formal communication reminding staff of their obligation to respect the terms and conditions under which entitlements and privileges are conferred is being prepared.

28. In an alleged harassment and retaliation case referred to AUO by the Ethics Office, the investigation revealed a wider scale of potential misconduct than initially alleged. The evidence gathered was sufficient to refute some of the allegations, but substantiated a harassment finding against one staff member and a finding of inadequate action to prevent harassment against another staff member. The Sanctions Committee recommended and the President approved that disciplinary action be taken in the form of remedial measures against both staff members.
29. An allegation was received of an officer having an undisclosed conflict of interest that potentially interfered with his/her functions. The AUO investigation substantiated the existence of a conflict of interest situation and further revealed that the role of the officer concerned in relation to a recruitment process had conferred an unfair advantage on one of the applicants. Specifically, the officer assisted and shared with the candidate confidential information he/she possessed based on his/her role on the recruitment panel and intervened with other parties to facilitate the recruitment of the candidate. The Sanctions Committee recommended and the President approved the debarment of the officer concerned (who in the meantime left IFAD).
30. AUO received a number of allegations from an anonymous complainant regarding misconduct in a country office. These included favouritism in recruitment (of both IFAD and project staff) by IFAD staff, misuse of project assets by a member of the project staff and irregularities in procurement. AUO did not find sufficient evidence to substantiate the allegations of misconduct by IFAD staff, nor did it find any irregularity in the procurement exercises identified. AUO found some irregularities in the project recruitment process and misuse of project vehicles by project staff and has referred the matter to IFAD Management.

V. Implementation of the anticorruption policy

31. The proactive awareness-raising activities undertaken by AUO/IS included two IFAD induction course presentations and one training session on corruption and fraud awareness for project staff in the context of a financial management workshop. Moreover, anticorruption awareness material was distributed during field missions and at other project-related events.
32. AUO continued to provide advice to staff regarding potential fraud or corruption in various projects. During both preliminary assessments and active investigations conducted, AUO was able to cooperate and coordinate actively with the Programme Management Department to prevent further risks. At the close of several cases, AUO issued a number of reports on management implications and control weaknesses.