



Enabling poor rural people
to overcome poverty

2011 Annual Report on Investigation and Anticorruption Activities

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I. Executive summary

1. In its efforts to help poor rural people overcome poverty, IFAD aims to ensure that development funds reach them 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 IFAD's Policy on Preventing Fraud and Corruption in its Activities and Operations (EB 2005/85/R.5/Rev.1 - "the anticorruption policy"), 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 (AUO/IS) lead IFAD's efforts in combating fraud and corruption. AUO/IS has 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. In August 2011, the newly-promulgated Harassment Policy eliminated the Harassment Panel and assigned the formal investigation of harassment, abuse of authority, retaliation and conflict of interest allegations to AUO/IS.
3. 2011 saw the AUO/IS continue to pursue its dual priorities of promoting the anticorruption agenda and providing a complaint intake and investigation function to handle allegations of irregular practices and staff misconduct. The number of allegations received by AUO in 2011 was 41 - slightly lower to the 43 received in 2010 and significantly higher to the 27 received in 2009. Of these, 25 were external, 13 related to IFAD staff members, and three involved both staff members and external parties. This represents an increase in percentage and in actual number of external cases reported (25 external cases reported in 2011 compared to 21 in 2010). The staff misconduct cases involved harassment, breach of confidentiality, recruitment irregularities and conflicts of interest, while the external cases involved collusion in procurement activities and other fraud on the part of companies and project staff.
4. The increased volume of allegations in 2010/11 in combination with the reduced staffing of AUO/IS in the same period led to a very high investigation caseload of 59 active cases in 2011 (compared to 49 active cases in 2010 and 33 active cases in 2009). Seventeen cases were completed in 2011 of which, five were closed as unsubstantiated or unfounded, five were transferred to IFAD Divisions, and one was substantiated. A selection of closed case summaries can be found in part V of this report.
5. The increasing case backlog prompted the engagement by AUO of several consultants and the secondment of an investigator from the World Bank in the latter part of 2011. A second investigation officer position was created in October 2011 and was filled in February 2012. The backlog was significantly reduced in January/February 2012 and AUO will re-double its efforts, seeking additional resources as necessary, to ensure a prompt response to allegations in 2012.
6. The AUO priorities in 2012 will be to continue to focus on effectively utilizing its resources in the face of a substantial caseload while maintaining and increasing its proactive efforts in promoting the IFAD anticorruption agenda. Specifically, to this latter aim, AUO is exploring, in collaboration with other IFAD divisions, techniques to raise awareness amongst IFAD staff as well as project staff administering IFAD projects and operations in the field of the signs and incidence of corruption.

II. AUO investigation mandate, method and resources

Investigation mandate and process

7. The Office of Audit and Oversight (AUO) and its Investigation Section (AUO/IS) lead IFAD's efforts in combating fraud and corruption. AUO/IS has 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. In August 2011, the newly-promulgated Harassment Policy eliminated the Harassment Panel and assigned the formal investigation of harassment, abuse of authority, retaliation and conflict of interest allegations to AUO/IS. IFAD's investigation and sanction practices are aligned with best practices applied by other United Nations agencies and the major multilateral development banks (MDBs) in this area.
8. The goal of an investigation is to gather both inculpatory and exculpatory evidence, i.e. evidence that may either corroborate or refute an allegation. Equally important, AUO/IS also investigates when there are indications that malicious or deliberately false information has been reported. Upon receipt, every allegation is subject to a preliminary assessment. At this stage it is determined first whether the allegation falls under the mandate of AUO/IS for investigation. Then, if it is found to be within the mandate, an analysis of available information is conducted to determine whether it is appropriate to perform a full investigation, a referral to management for another remedial action, or merely 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 to either corroborate or refute an allegation of irregular practices;
 - **unfounded** where a preponderance of evidence is found to refute the allegation(s).

AUO/IS staff resources

9. Investigation activities are carried out by the AUO/IS team with the support of external experts, under the general supervision of the Director AUO. The AUO/IS section consisted of two staff in the period 2010/11 (one investigation officer and one investigation assistant), down from three staff in the period 2007/09 (two investigators and one assistant). The reduced staff capacity in 2010/11, the staffing changes in 2011 (a new investigation officer came on board in January and a new Director AUO in May) and the increasing volume of allegations led to a high investigation caseload of 59 active cases in 2011 (as compared to 49 in 2010 and 33 active cases in 2009). This prompted the engagement of several Investigation Consultants and the secondment of an investigator from the World Bank in the latter part of 2011 to perform investigative work as well as undertake investigative field missions. Furthermore, a second Investigation Officer position was created and the recruitment process was completed in December 2011.

III. 2011 investigation activities

2011 Caseload

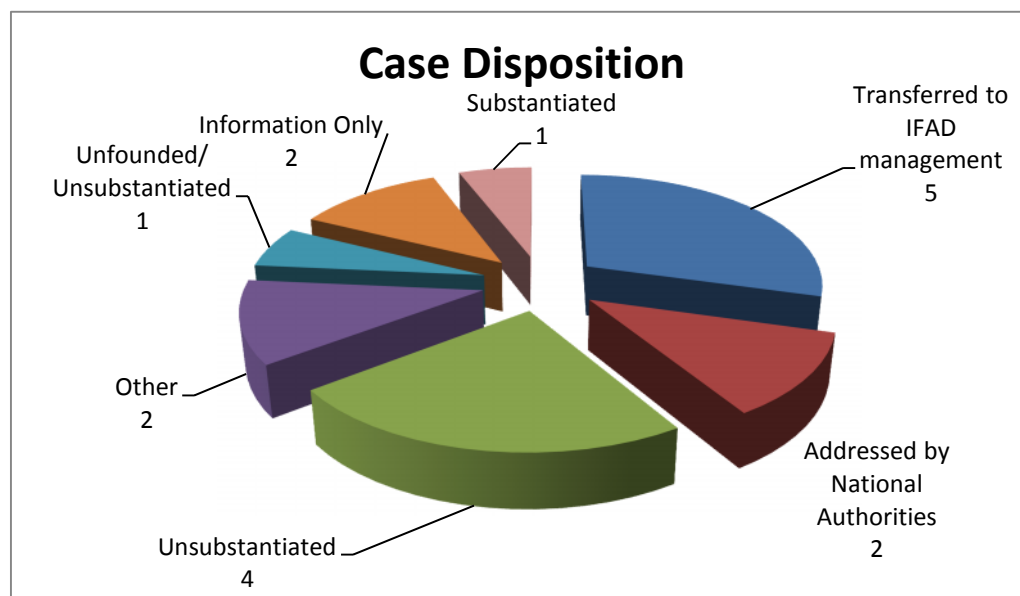
10. AUO/IS received 41 allegations in 2011, 25 external, 13 internal and 3 mixed. This represents an increase in percentage and in actual number of external cases reported (21 external cases reported in 2010 compared to 25 in 2011) (Figure 3). The external allegations received by AUO to a large extent involved project procurement processes.

Table 1: Active investigation cases in 2011

	<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

11. In 2011 AUO/IS completed seventeen investigation cases, five of which were closed as unsubstantiated or unfounded, five were transferred to IFAD Divisions, two were addressed by national authorities, and four were closed as other or for information only. One case was substantiated and was reported to the Sanctions Committee.

Figure 5: Cases closed in 2011

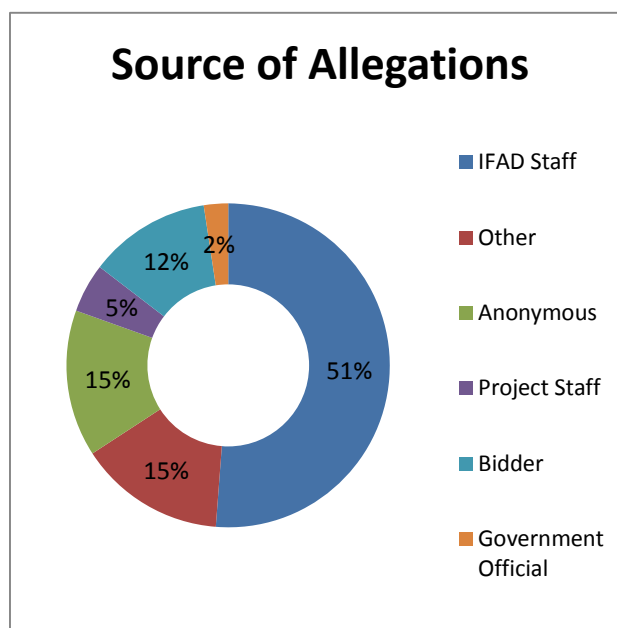


*Cases may be referred to IFAD Management, IFAD divisions, governments, or other appropriate entities.

Source of allegations

12. IFAD staff members comprised the majority of complainants in 2011 at 51 per cent (34 per cent in 2010), while project staff represented only five per cent (as opposed to 26 per cent in 2010). A contributing factor to this is probably the limited involvement in 2011 of AUO/IS staff in field awareness activities due to the high investigation workload. Five allegations (12 per cent) were received from bidders. Anonymous and other sources accounted for 30 per cent of the allegations received (refer to figure 1).

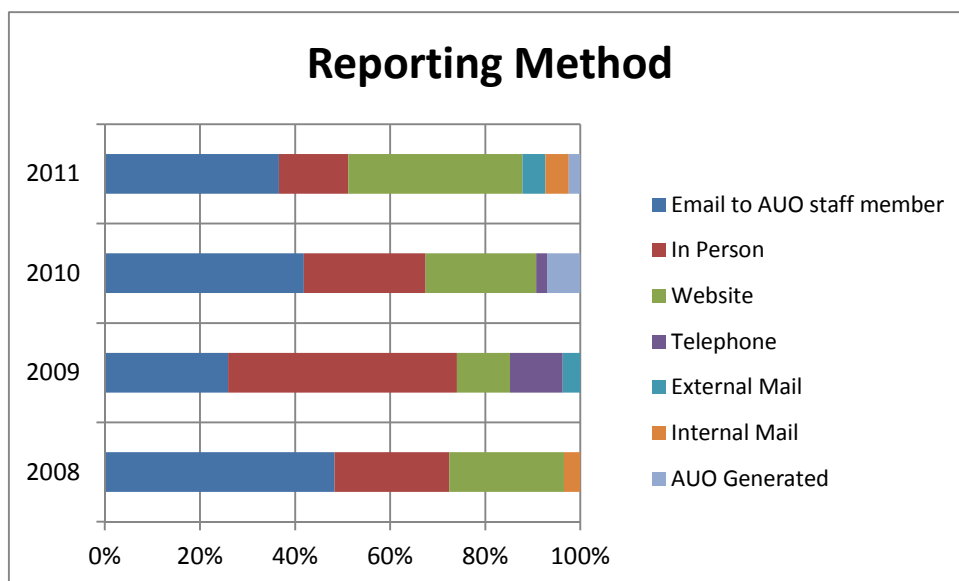
Figure 1: Source of allegations received by AUO in 2011



Channels used for reporting allegations to AUO

- 13. E-mails to AUO staff and to the anti-corruption website have been the primary channels for the reporting of allegations in 2011 (refer to Figure 2).

Figure 2: Channels used for reporting allegations (2008-2011)



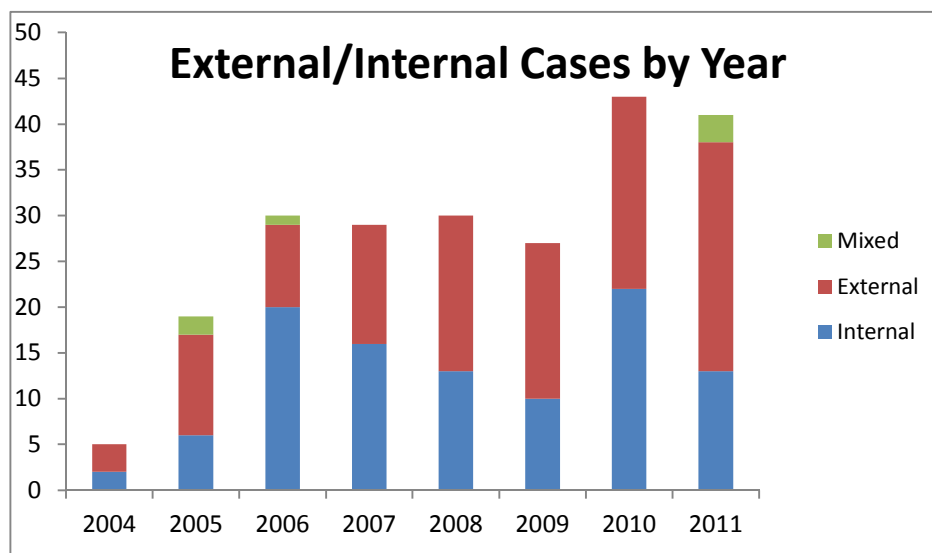
Subjects of allegations

- 14. Of the 41 allegations received in 2011, 25 were external, 13 were internal and 3 were mixed¹. This represents an increase in percentage and in actual number of

¹ Allegations of irregular practices pertaining to activities 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.

external cases reported (21 external cases reported in 2010 compared to 25 in 2011) (Figure 3).

Figure 3: Subjects of allegations reported to AUO (2004 – 2011)



Nature of allegations

15. Table 2 provides information on the nature of allegations received in 2011. 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 2011

Nature of allegation	Total
Corruption (Bribery)	8
Fraud	11
Fraud/Collusion	1
Collusion	1
Corruption (Bribery)/Fraud	1
Corruption (Bribery)/Collusion	1
Misconduct (Harassment)	3
Misconduct (Conflict of Interest)	3
Misconduct (Breach of Confidentiality)	1
Misconduct (Recruitment Irregularities)	3
Misconduct (Fraud)	5
Other	3
Total	41

^a OAI/S 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 behalf of IFAD staff members.

IV. Sanctions Committee activities

16. The Sanctions Committee has the authority to decide on appropriate sanctions, including debarment, to be imposed by IFAD where it determines that firms, private

entities or individuals, including IFAD consultants but excluding staff members, have engaged in irregular practices in connection with IFAD-financed activities and operations. The Committee acts as a recommending body to the President with respect to disciplinary measures to be imposed on staff members and application of suspension or cancellation of a loan or grant and referrals to national authorities. Due to recent changes in IFAD's organizational structure, proposed amendments to the procedures and policies of the Sanctions Committee are being reviewed. AUO has actively supported this review, and will continue to do so, in its role as Secretariat of the Committee.

17. The Sanctions Committee considered three cases during 2011. Two of these, external cases involving allegations of procurement irregularities, were revisited after preliminary discussions in 2010. The committee decided in 2010 to debar one company and two individuals in relation to those irregularities, and pursuant to the subsequent 2011 deliberations, those debarments were affirmed, clarified and implemented. Additionally, the matters were then referred to the national governments. AUO is following up with these governments to determine the final outcomes of their additional investigations.
18. The Sanctions Committee also reviewed a case involving staff misconduct in the form of breach of confidentiality. The committee recommended and the President concurred with a verbal reprimand to be administered to the staff member, which was to be documented by a record placed in the staff members' personnel file for two years. AUO/IS supported the Sanctions Committee as needed to reach and implement its decisions regarding sanctions imposition on staff; debarment of individuals and companies; as well as referrals to and subsequent follow-up with governments.

V. Examples of investigations closed in 2011

A. External cases

19. An allegation had been reported in an on-line news website that staff from a project's implementing partner had committed fraud by misappropriating project funds to which they had access in their roles as employees of a local community bank. AUO confirmed through a review of available documentation and preliminary interviews that the subjects had been removed from their positions and were being criminally prosecuted by the national authorities.
20. A Country Programme Manager reported to AUO an allegation of possible misappropriation of approximately US\$400,000 from a project. The Government in question initiated an investigation but before its completion, civil conflict erupted, suspending the investigation and any possible follow-up by AUO. A change in government and subsequent restructuring delayed the outcome of the inquiry, but upon reinstatement of project activity, the government reordered an investigation and consequently paid back the misappropriated funds to IFAD. The case was therefore closed without further investigation.
21. AUO received an allegation from a bidder in a project procurement that despite having offered the lowest bid another company was awarded the contract, implicitly alleging corruption in the process. The AUO inquiry included a field-based investigation that included interviews with relevant parties and a thorough document review. While the investigation did not find any substance in the complaint or reveal evidence to support the presence of corruption or other irregular practice, AUO identified a number of issues related to the conduct of the procurement process, including ambiguity in the financial terms of the winning bid, and the IFAD review thereof. These issues were reported to PMD in a Management Implication Report, as a result of which renegotiation of the financial terms of the contract was ordered.

22. AUO received an anonymous allegation that a consultant had been defrauding and breaching contract terms with IFAD and other United Nations (UN) agencies by double-billing for the same hours worked and subcontracting work without the agencies' knowledge and consent. AUO collaborated with several other UN agencies to determine the nature and extent of the subject's contracts. The investigation found no conclusive evidence that the subject had breached contracts or had committed fraud. The case was closed as unsubstantiated and a Management Implication Report was sent to HRD addressing issues identified during the course of the investigation.
23. AUO received allegations of conflict of interest and breach of confidentiality in a project procurement process. The AUO inquiry included a field-based investigation that included interviews with relevant parties and a thorough document review. There was no indication of collusive or otherwise irregular practices under the IFAD Anticorruption Policy. However, the investigation did reveal breaches of national procurement guidelines, which were reported to PMD through a Management Implication Report.

B. Internal cases

24. AUO received an allegation of misconduct on the part of a staff member who was alleged to be committing fraud through abuse of the Leave Management System. A detailed assessment and analysis of records by AUO found that while slight irregularities existed in the logging of annual leave, the irregularities had been reconciled and no rules and regulations had been explicitly contravened. This case was closed as unfounded/unsubstantiated.
25. An report of staff misconduct in the form of breach of confidentiality in a recruitment process was received and fully investigated by AUO. The allegations were substantiated and referred to the Sanctions Committee.
26. AUO conducted an inquiry into the circumstances surrounding the death of an IFAD consultant who had become ill while on an IFAD mission. The inquiry focused on identifying lessons learned and included field missions, interviews of all relevant staff and non-staff individuals, collecting and analysing all relevant documentation. A detailed report was issued that highlighted areas worthy of managerial policy review.

VI. Implementation of the anticorruption policy

27. Proactive awareness-raising activities of AUO/IS were restricted in 2011 by the priority of addressing the very active investigation caseload. Despite these challenges the Section provided training to staff and assisted other divisions in preparing anticorruption briefings for project staff several times over the year, including assisting colleagues in other divisions in preparing presentations for project start-up workshops and in development of COSOP and project design documents.
28. The proactive awareness-raising activities undertaken by the AUO Investigation Section included two IFAD Induction Course presentations and one anticorruption and fraud awareness training for project staff. Anticorruption presentations were given at two project start-up workshops with support and assistance from AUO and one financial management workshop was held by representatives of AUO. Furthermore, anticorruption awareness material was distributed at two other project-related events.
29. In 2011 AUO/IS responded to several requests for support from other Divisions pertaining to anticorruption topics, including requests for commentary or advice on existing institutional anticorruption and policy instruments, such as revisions to Human Resources policies; commentary on the newly-promulgated Staff Rules; an information paper on IFAD's anticorruption framework for the Board's Convenors and Friends; and several anticorruption presentations.

30. AUO staff attended the annual Conference of International Investigators in Washington DC, along with representatives of various United Nations agencies and MDBs, continuing its active engagement in the international discourse on anticorruption efforts, investigations and sanctions processes. AUO represented IFAD at the fourth session of the conference of the States Parties to the United Nations Convention Against Corruption (UNCAC) in Marrakech. The main purpose of the Conference was to assess and share experiences on the implementation of the Convention by its members states.
31. Preliminary investigation assessments conducted by AUO/IS and active investigations that were pursued provided opportunities for active discourse, information-sharing and increased collaboration with PMD. Specifically, AUO issued a number of Management Implication Reports over the course of 2011 and transferred a number of cases to Country Programme Managers through detailed memoranda pursuant to initial assessments of information received.
32. AUO/IS also worked with the Human Resources Division (HRD) in providing input for the Disciplinary and Harassment Chapters of the new Human Resources policies and Staff Rules. Finally, AUO has begun collaborating with the Ethics Office on the implementation of the new Harassment Policy. AUO/IS also collaborated with the Sanctions Committee to implement its decisions to debar individuals and companies as a result of AUO/IS investigations. During the coming year, AUO/IS intends to continue this close association so that procedures and policies can be developed and applied uniformly.

VII. What's next in 2012

33. In 2012 the primary priority of AUO will be to ensure that the increasing number of reports of possible misconduct are addressed in a timely manner, as staff and donor confidence in the Fund depends to a significant degree on the ability of AUO/IS to provide a consistent and reliable investigation mechanism.
34. AUO will continue to promote the anticorruption agenda through targeted collaboration with colleagues in crucial divisions such as PMD, IOE, CFS, LEG and PTA. Specifically, through proactive engagement aimed at integrating preventive anticorruption measures at COSOP and project design stages, AUO seeks to address the issues at their core, before avoidable events become allegations of irregular practices. Moreover, in the coming year AUO aims to develop and implement an e-learning training programme (available in web-based and CD format) to raise fraud awareness and train HQ- and field-based IFAD staff, and eventually project staff, on the IFAD anticorruption policies and activities, red flags, fraud prevention and detection and reporting mechanisms and requirements.
35. AUO/IS will continue to coordinate with PMD units to improve availability of anticorruption materials and information about IFAD's anticorruption and Code of Conduct policies and standards at the project level. AUO/IS will continue to share with operational divisions the observations gleaned from its investigations through the issuance of reports that identify weaknesses in control mechanisms that facilitated the occurrence of fraudulent or corrupt practices. Similar management implication reports will also be shared with Management, administrative units, and the Human Resources Division for internal misconduct cases.
36. AUO will continue to carefully assess its support and resource requirements to meet its responsibilities to respond to allegations effectively and expediently while continuing its work in fraud prevention and detection and promotion of the anticorruption agenda.