

General Principles for Proactive Integrity Risk or Fraud Detection Activities

PREAMBLE

The Conference of International Investigators (CII) has endorsed Uniform Principles and Guidelines for Investigations ("Investigation Guidelines").¹ As part of its mandate, an Investigative/Integrity Office² may also conduct activities to assess and detect the exposure of certain operations and processes to fraud or corruption and/or the risks of prohibited conduct impacting the operation/process.

For those functions that undertake such Reviews (howsoever named; that is, fiduciary/integrity reviews or proactive fraud risk assessments of projects, programmes, or operations that the organisation has financed to detect and/or prevent prohibited conduct or determine its vulnerability of risks to fraud or corruption), the following agreed principles encourage a consistent approach and common methodology.

The scope and nature of Reviews remain within the discretion of each Organisation to be conducted by applying professional judgment within the framework of each organisation's own requirements, policies and procedures. The General Principles do not and are not intended to bind the Organisations or confer, impose or imply any duties, obligations or rights actionable in a court of law or in administrative proceedings on the Organisations. Nothing in these General Principles should be interpreted as affecting the rights and obligations of each Organisation per its rules, policies and procedures, nor the privileges and immunities afforded to each Organisation by international treaty, customary international law and the laws of the respective member state.

The General Principles for Proactive Integrity Risk or Fraud Detection Activities supplements the Investigation Guidelines and was endorsed by the CII at its 20th Conference.³ This document is designed to identify common themes and general principles and to provide guidance in the various approaches to conducting Reviews. As per the previous para, it is non-binding and does not confer any new rights or obligations on participating Organisations.

GENERAL

1. The objective of a Review on a project, programme, operation or process is to: (i) detect red flags or indicators of fraud, corruption, collusion or coercion; (ii) to identify possible integrity risks; and/or (iii) determine the project's susceptibility to misuse of funds. This can be done by gathering information and undertaking inspections/site visits in relation to:
 - (i) the actual use of funds;
 - (ii) project implementation/management; and
 - (iii) the application and effectiveness of internal controls, such as in procurement or financial management.

¹ The Uniform Principles and Guidelines for Investigations were originally endorsed by the 4th Conference of International Investigators in 2003. A revised set was endorsed by the 10th Conference in 2009.

² Consistent with the Investigation Guidelines, the term "Organisation" used herein includes reference to all institutions participating in the Conference of International Investigators. The investigative units or function of each organisation with a mandate to investigate allegations of fraud and wrongdoing within their organisation or associated with its projects and activities are referred to herein as the "Investigative Office."

³ At its 20th Conference, the CII also endorsed 'General Principles for Financial Forensics'.

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2. A Review is different from an investigation, in that it seeks to identify:
 - indicators (if any) that a project is vulnerable to or suffers from fraud or corruption ('red flags');
 - the nature and extent of any problems or issues;
 - areas for possible follow-up, remediation/intervention and/or investigation; and
 - recommendations and/or mitigating measures to prevent recurrence or mismanagement.
3. Should the Review identify indicators of fraud, corruption, collusion, coercion or other red flags of misuse of funds, they should be evaluated in a separate process and in line with the Investigation Guidelines to determine whether an investigation is warranted.
4. There are two types of detection activities that can be conducted: formal Review (Paras 5 – 22) and small-scale review (Paras 23 - 24).
5. To the extent provided by the organization's rules, policies and relevant contracts, those conducting the Review shall have the authority to examine and copy the relevant documentation and records.

SELECTION OF PROJECT / OPERATION / PROCESS FOR REVIEW

6. The project/operation/processes (or group of projects/operations/processes) for review may be selected in consultation with, input from and/or at the request of relevant units undertaking those operations.
7. In selecting the project(s), it is useful to conduct a risk assessment including:
 - (i) opinions and comments from operations colleagues;
 - (ii) ratings from other reviews, monitoring reports, risk reports, integrity indicators etc.;
 - (iii) geographic and sectoral concentration representing significant parts of the portfolio;
 - (iv) findings from prior investigations involving this or similar projects, or projects involving the same implementing arrangements;
 - (v) regions/countries which are identified to have a higher risk of fraud; and/or
 - (vi) other third-party communications / complaints / rumours related to the project or other indicators of reputational risk.
8. To finalise the selection of an operation for Review, inputs from the following should be considered:
 - (i) reviewing of available operation/project files, including procurement files;
 - (ii) understanding of the organisational structures, sector information, strategies, inherent risks, control environment and internal controls, as well as reviewing financial statements, performance and disbursement records and back-to-office reports;
 - (iii) information from other organisations and/or funding agencies;
 - (iv) research of open source materials; and/or
 - (v) comments from operational units.

COMPOSITION OF TEAM

9. The team conducting the Review should normally come from or include staff from the investigation/integrity function (subject to para 15(i)). Consideration should also be given to whether: (i) staff from other departments; (ii) outside consultants and experts; and/or (iii) representatives of fiduciary/integrity functions of partners who are joint or parallel financing; should join the review team.
10. Depending on the circumstances, it may also be helpful to invite representatives from government agencies and/or control bodies to participate in some capacity. They can bring certain benefits (including local knowledge) as well as providing them with an insight into such operations (which may assist their future work).
11. Consultants and/or subject matter experts may be hired to assist the review. External services may include specialist work such as sampling/testing, forensic accounting, data analysis, laboratory services and/or technical surveys. It is important to ensure that, as far as possible, these services are objective and independent.

PLANNING

12. At the start of a Review, a planning document should be prepared which describes:
 - (i) the plan and methodology for undertaking the review;
 - (ii) the initial risk assessment of the organization, project, programme or operation; and
 - (iii) the expected timeline and resource requirements.
13. Prior to undertaking fieldwork, the team should (i) advise the beneficiary of the scope of the Review (ii) identify which entities and relevant government agencies and/or control bodies may be visited (iii) determine the project site(s) and files to be inspected and (iv) who and when needs to be informed about the Review.

FIELDWORK

14. The fieldwork can entail: document and electronic data review, financial forensics, site visits, interviews with persons connected with the operation and relevant third parties, and other data-gathering to seek to:
 - identify any integrity risks
 - identify any possible misuse of funds or fraudulent, corrupt coercive or collusive practices; and/or
 - formulate recommendations for improvement and/or follow-up actions.
15. (i) Under certain circumstances, a Review may be conducted without direct involvement of investigation/integrity office staff, the necessary fieldwork being conducted either by other units of the organization or by outside consultants, or a combination thereof. In such cases, terms of reference for the Review should be drafted to specify the nature and scope of the review, the timing and key milestones, reporting protocols and other relevant criteria. These details should be agreed by all parties conducting the review and the investigation function.

(ii) The professionals conducting the work should apply an integrity perspective in the identification, pursuit, analysis and evaluation of the financial, accounting and other information relevant to the Review contemplating that the information gathered may be biased, false, unreliable and/or intentionally incomplete.

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(iii) Adequate monitoring, supervision and assistance to the parties conducting the fieldwork should be provided.

(iv) There should be regular updates provided by the Review team to all relevant parties.

16. The information obtained should be, where possible, corroborative, sufficient to validate (or respond to) an issue and/or should form a reasonable basis for a working conclusion.

REPORTING

17. (i) Upon completion of the Review, a draft report of findings may be provided to operational units for their comment. Depending on the feedback and/or the sensitivity of the issues raised, the report can also communicate findings to the beneficiary, after a discussion on a communication strategy with operational units.

(ii) The draft report may also be shared with the beneficiary for their review and comment, which can be taken into account when finalising the report.

18. Comments provided by operations or beneficiary should be documented and, if possible, verified.

19. The report of findings, once finalised, should form the basis of discussions with others in senior management, as appropriate, and/or be referred to intake or similar mechanism put in place by the Investigative/Integrity Office to assess whether indicators of prohibited practices exist warranting initiating an investigation. The Review can result in: (i) another review (for e.g. on a larger scale or more focused topic); (ii) an investigation; (iii) sharing with operations; and/or (iv) a referral to the authorities.

FOLLOW-UP AND RECOMMENDATIONS

20. Based on the findings, the report should make appropriate recommendations for:

- improvements in project design and/or implementation;
- improvements in internal or external controls; and/or
- other remedial measures.

Such recommendations should generally be discussed with the relevant operational units (and beneficiary where applicable) and proposed to senior management for approval where appropriate.

21. Based on the Review's findings, the investigation office may decide to initiate investigation(s) and/or refer specific wrongdoing to relevant national agencies. The report of findings may be used to prepare such referrals, although it may be necessary in some cases to redact or summarise the information in accordance with the integrity office's protocols for such referrals.

22. Irrespective of the stage at which they are identified, if the findings point to possible prohibited conduct having been committed such as fraud or corruption or misuse of the funds, briefings and information sharing both internally and externally should be approached with care.

SMALL-SCALE REVIEW

23. As an alternative to the full-scale Review outlined above, it is possible for an Organisation to conduct a shorter, self-contained exercise to review a project/process (or multiple projects/processes) for red flags or other negative indicators. Small-scale reviews typically

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include activities such as desktop-reviews, spot-checks/inspections or assessment/evaluation of the circumstances and/or progress of the project(s).

24. A small-scale Review can result in a report that can be retained and used by the investigation/integrity function for example for review by the intake or similar mechanism, for risk scoring, further analysis and/or periodic reporting etc.

25. A small-scale Review can contribute findings and result in other activities as listed in paragraph 19.

IMPLEMENTING GUIDELINES

26. In addition to these Principles, the CII may develop and publish detailed *Implementing Guidelines for Proactive Integrity Risk or Fraud Detection* to be used for reference as needed as further non-binding guidance for Investigative Offices in the conduct of their integrity risk or fraud detection activities.