Report of the Working Group on Fraud

BACKGROUND

1. As decided in the FB Network meeting in February 2004, the FB Network - Working Group on Fraud was formed during late 2004 (FAO – convenor, UNESCO, UNICEF, ITC, UNFPA, UNOPS, WFP, WHO, WIPO, UN Secretariat\(^1\) and supported by Mr Lalli - CEB Secretariat) for the purpose of sharing fraud policy documents and other guidance on fraud prevention including advice and materials used in management training. Based on the Working Group’s terms of reference, a draft outline of next steps to take was prepared and sent to the Working Group members for comments. After a slow start in the Working Group’s activities, as reported in the FB Network video conference in March 2005, a video conference with the Working Group members was held on 6 April 2005.

2. During this video conference, the first part of the work plan\(^2\) was established and responsibilities defined, in particular in relation to the first steps to be taken.\(^3\) The three main initial steps agreed related to working towards proposing a common definition of fraud, developing a fraud risk assessment framework and collecting information on fraud policies within the UN system for subsequent analysis and comparison.

DEFINITIONS OF FRAUD

3. FAO performed a research into different definitions of fraud and in May 2005 circulated four alternative definitions, of which three issued by authoritative standard setting bodies and one dictionary definition, among Working Group members. From the feedback received on these different definitions it can be noted that the members express preferences for widely varying definitions, although certain common elements are present in most alternatives.

4. It is also important to note that those organizations that have already adopted a definition, either as part of a full-fledged fraud policy or as a working definition, appear reluctant to change in consideration of the difficulties involved in initiating a process of change with required approvals at high levels within their organization.

\(^1\) Joined the Working Group in May 2005
\(^2\) See Workplan – FB Network Working Group on Fraud in Attachment 1
\(^3\) See Conclusions of the meeting of the FB Network - Working Group on Fraud Videoconference, 6 April 2005 in Attachment 2
5. Further discussion at FB Network level of what the objective of its Working Group on Fraud should be in this regard would therefore be vital at this point: Should the Working Group aim at reaching agreement on a common definition for proposed adoption throughout the UN system or should the final product of the Working Group in this respect be an analysis of different definitions and common elements aiming at providing best practice advice to organizations working on developing their fraud policy.

FRAUD POLICIES

6. A survey was performed of FB network members, a total of 26 organizations, requesting information on any fraud policies within the respective organizations, both already implemented and under development. Of the fourteen replies received, six organizations responded that no specific fraud policy existed but that the rules and regulations cover certain aspects of the matter. Four organizations responded that a policy had been implemented while three organizations noted that a policy was under development or awaiting final approval. The remaining organization follows the policy guidance of UNDP and WHO. Several organizations expressed much interest in being informed of further developments on the issue of fraud policies within the UN.

7. From a review of the four examples of fraud policies received, it can be noted that these vary significantly in content and scope. Certain common elements, however, are present in all policies such as a definition of the term fraud, a description of responsibilities in relation to fraud prevention and reporting as well as details of how to report suspected fraud. Two of the policies also contain detail guidance for staff, of a more procedural nature, on how to prevent, detect and report fraud.

FRAUD RISK ASSESSMENT FRAMEWORK

8. On the basis of research into available material, from different sources, on risk assessment methods and frameworks as well as on fraud and fraud prevention, FAO prepared a draft Fraud Risk Assessment Framework for further discussion within the Working Group. This draft framework was circulated among the Working Group in May 2005 and comments as well as information about the possibility of implementing such a framework in the organizations were requested. At this point only three replies have been received and further discussion of the way forward in this area of work is required.

FURTHER WORK ON FRAUD PREVENTION WITHIN THE UNITED NATIONS

9. Since the setup of the FB Network – Working Group on Fraud, the United Nations has decided to draw up a Secretariat wide “Corruption and Fraud Prevention Plan”, as part of the Secretary-General’s recent reform efforts. The work is being conducted by a group chaired by the UN representative to the FB Network - Working Group on Fraud.

10. In the interest of UN system harmonization of policies, to avoid duplication and capture synergies in the process of deploying resources to the research and development of these policies and procedures, we look forward to UN reporting to the FB Network regarding opportunities to coordinate or merge these two efforts.
# Work plan – FB Network Working Group on Fraud:

<table>
<thead>
<tr>
<th>Action to be taken</th>
<th>Responsibility</th>
<th>Timing</th>
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</thead>
<tbody>
<tr>
<td>(a) Discuss what “<strong>develop a common framework for risk assessment</strong>” entails and define what is expected from the working group in this regard.</td>
<td>All working group members</td>
<td>Done during Videoconference April 2005</td>
</tr>
<tr>
<td>(b) Propose a common definition of fraud</td>
<td>FAO to propose 3 alternative definitions. WG members to decide on preferred definition.</td>
<td>Proposal of three alternatives during May. Result to be included in report to FB Network meeting in July</td>
</tr>
<tr>
<td>(c) Develop proposed outline of a fraud risk assessment framework.</td>
<td>FAO</td>
<td>Proposed outline to be circulated in May. Result to be included in report to FB Network meeting in July</td>
</tr>
<tr>
<td>(d) Collect fraud policies already obtained in previous FAO survey exercise</td>
<td>FAO</td>
<td>Done</td>
</tr>
<tr>
<td>(e) Obtain information on any fraud policies existing or being developed in the organizations which did not respond to the FAO survey, in particular the members of the working group.</td>
<td>FAO and all working group members</td>
<td>May 2005</td>
</tr>
<tr>
<td>(f) Read all fraud policies received and write up common elements. Share with working group and obtain comments.</td>
<td>FAO</td>
<td>Result to be included in report to FB Network meeting in July</td>
</tr>
<tr>
<td>Action to be taken</td>
<td>Responsibility</td>
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<td>(g) Obtain further information from working group on actual procedures relating to fraud control and prevention, including statistics and concrete examples of application of procedures. Discuss best practice (email, teleconference, meeting) as appropriate</td>
<td>Details on types of information to be collected and use of collected material to be decided at next meeting/videoconference</td>
<td>To be determined</td>
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<tr>
<td>(h) Draft best practice booklet.</td>
<td>To be defined</td>
<td>To be determined</td>
</tr>
<tr>
<td>(i) Share with working group for comments</td>
<td>All</td>
<td>To be determined</td>
</tr>
<tr>
<td>(j) Discuss development of training materials (for preventing, identifying, reporting, managing fraud and possibly for risk assessment).</td>
<td>To be defined</td>
<td>To be determined</td>
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<tr>
<td>(k) Issue to the rest of FB for discussion and finalisation</td>
<td>To be defined</td>
<td>To be determined</td>
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Conclusions of the meeting of the FB Network - Working Group on Fraud Videoconference, 6 April 2005

Introduction

The FB Network – Working Group on Fraud (hereinafter the WG) videoconference was held on Wednesday 6 April 2005 (15:30h Rome time). The meeting was chaired by Mr. Nicholas Nelson (FAO), the convenor of the WG. The agenda as adopted is provided in Annex I. The list of participating Organizations and their representatives is provided in Annex II.

Further definition of the scope, objectives and expected output of the Working Group.

1. Mr Nelson noted that it would appear from the discussion during the latest FB Network videoconference of 3 March 2005 that the expectations of outputs by the working group have increased both as to scope and timing compared to the original terms agreed at the FB Network meeting in 2004. It was thus necessary to ensure a clear definition of the scope and objectives of the WG.

2. Mr Lalli (CEB Secretariat) and Mr Engida (UNESCO) confirmed that the matter of fraud prevention, and more generally, of transparency and accountability in the UN system had received increasing attention lately and that it was thus necessary for the WG to report progress in its work as soon as possible, in particular for the FB Network meeting in July.

3. Mr Nelson noted that the WGs original terms of reference were as follows:

   As a priority, develop:

   • a common framework for risk assessment
   • a shared definition of fraud, its types and categories.

   The risk assessment should include security issues surrounding issues of financial data being handled through electronic means.

   The Working Group was also requested to:

   • produce a best practice booklet on fraud controls and prevention and
   • consider the matter of training, including the production of CD-ROM based training materials.

   Legal and internal audit colleagues should be brought in to assist in the work, as needed.

   The ITC Network should be consulted in approaches that might be taken to mitigate risks identified in electronic data exchanges.
4. Mr Nelson also noted that the recent HLCM meeting had considered a report of the Board of External Auditors to the UN General Assembly, which requested that UN Administration establish a corruption and fraud prevention mechanism.

5. Mr Lalli explained that the HLCM had reviewed the abovementioned document and had discussed referring it to the FB Network’s WG for consideration and action. However, as the matter had not yet been clearly assigned to the WG, additional points should be added to the WG’s work program if required only when the report of the recent HLCM meeting was available.

6. Regarding the development of a common framework for risk assessment, Mr Engida suggested that this be clearly limited to fraud and corruption risk.

7. There was consensus on the fact that the original terms of reference be maintained and that the risk assessment framework focus on fraud and corruption risk and consist of an outline of basic principles, recommended steps of the risk assessment process as well as suggested roles and responsibilities.

8. **Action point** – FAO to review report from recent HLCM meeting and discuss any further work affecting the WG with the members.

**Suggested next steps**

9. Mr Nelson invited the WG to comment on the suggested next steps previously distributed via email.

10. Mr Lalli suggested that steps a) to e), the preparation of a suggested framework for fraud risk assessment and a collection of fraud policies in the UN system, be carried out as a priority and progress reported to the FB Network meeting in July. He further noted that what is required in the UN are mechanisms and tools for fraud prevention as well as the raising of awareness of the application and implementation of such tools. It is thus important to have as an objective of the WGs work to compile policies and tools that are easily "communicatable". The subsequent steps would involve significant amounts of work and would need to be considered by the WG at a later stage. In particular, Mr Lalli questioned whether the development of training materials is appropriate for this working group.

11. Mr Engida suggested that not only fraud policies in the UN system be considered but also best practice outside the system. This would be useful for the subsequent preparation of a “gap analysis” both in policies and application.

12. Mr Lalli suggested that statistics and information on concrete examples of application of fraud policies and relevant sanctions also be collected. This would provide an opportunity to analyse the effectiveness of the application of different methods.

13. Consensus was reached to add the above collection of statistics and actual examples to point f) of the suggested next steps.
14. Mr Nelson suggested that the development of a common definition of fraud also be scheduled for reporting to the FB Network in July and noted that an option would be to adopt the definition of the UN Panel of External Auditors.

15. Mr Engida agreed that it was unnecessary to create a new definition of fraud and suggested that a number of alternative definitions already in use be circulated for review and comments among the working group.

16. There was consensus to perform steps a) to e) and provide a suggestion for a common definition of fraud for the FB Network meeting in July. The subsequent steps would be discussed further in a later meeting.

17. **Action point** - FAO to prepare an outline of a fraud risk assessment framework for circulation among WG members and inclusion in the report to the FB Network meeting in July.

18. **Action point** - FAO to request updated information on fraud policies from the WG members and prepare a summary of common elements for inclusion in the report to the FB Network meeting in July.

19. **Action point** - FAO to obtain three examples of definitions of fraud, including that used by the UN Panel of External Auditors and circulate among the members of the WG for comments. A suggested definition will then be provided to the FB Network meeting in July.

**Working methods of the Working Group**

20. Mr Lalli noted that general practice in the other FB working groups was that the leading agency provides the main guidance and performs a majority of the assigned tasks, while the other organisations participate mainly in providing information, analysis of alternatives proposed and decision making.

21. There was consensus that the WG would work as follows: FAO would prepare material requesting input from the other organisations and distribute proposed solutions and output through email for feedback.

22. Mr Lalli proposed to have a more active role and in particular offered to analyse the World Bank Group Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed Projects (the WB Report) and extract relevant elements for circulation among WG members.

23. There was consensus that further meetings/video conferences would be called based on progress of the work and need.

24. **Action point** – Mr Lalli to provide WG members with key points of the WB Report.
Other matters

25. Mr Khan (WFP) requested that the WFP participation in the WG be extended to include him and Ms Manditsch (WFP) from the Inspector General and Oversight Services Division.

26. Mr Engida asked that Mr John Parsons, Director of Internal Oversight Services, be added to the UNESCO team.

27. Mr Engida noted that the weakness of the UN system fraud prevention may lie in the implementation and follow through of policies and in the application of sanctions. It would therefore be useful to obtain input to the WG’s work from the Human Resources Departments.

List of organizations participating in the video conference and their representatives:

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<tr>
<th>Organization</th>
<th>Representative</th>
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<tr>
<td>FAO</td>
<td>Mr Nicholas Nelson</td>
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<td></td>
<td>Ms Charlotta Oqvist</td>
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<tr>
<td>CEB Secretariat</td>
<td>Mr Remo Lalli</td>
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<td>WFP</td>
<td>Mr Khan</td>
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<td></td>
<td>Ms Manditsch</td>
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<td>INTRACEN</td>
<td>Mr Ahouansou</td>
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<tr>
<td>UNESCO</td>
<td>Mr Getachew Engida</td>
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<tr>
<td>UNICEF</td>
<td>Mr Louis Bradley</td>
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