

GUIDELINES FOR INTEGRITY OFFICES WHEN CONDUCTING INTEGRITY RISK REVIEWS

Introduction: *The International Financial Institutions (IFIs) Anti-Corruption Task Force's Uniform Framework for Preventing and Combating Fraud and Corruption (dated September 2006) recommended, in para 6, that "...institutions continue to develop analytical tools designed to assess risks of corruption in individual countries, sectors and regions and institutional capabilities to respond to those risks."*

For those IFI investigation functions that undertake Integrity Risk Reviews (that is, reviews of projects, programmes, or operations that the IFI has financed to try to determine its vulnerability to fraud or corruption), the following guidelines provide a reference document and, within the framework of each institution's own policies, rules and procedures, encourage a consistent approach and common methodology.

The scope and nature of such a review remains entirely within the discretion of each institution - this document is designed to identify common themes and general principles and provide guidance in the various approaches, not confer any new rights or obligations.

(a) GENERAL

1. The objective of an Integrity Risk Review (IRR), is to gather information in a specified project, programme or operation related to:
 - internal controls;
 - procurement and financial management procedures; and
 - contract implementation / contract management.

in order to determine the project's susceptibility to misuse of funds, fraud, corruption, collusion and coercion and to examine whether an IFI's funds are being used for their intended purpose.

2. An IRR is distinct 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 investigation; and
 - recommendations and mitigating measures to prevent recurrence or management.

(b) SELECTION OF PROJECT TO BE REVIEWED

3. The project (or group of projects) to be reviewed should usually be selected in consultation with and/or with input from or at the request of relevant operational units.
4. In selecting the project(s), it is useful to consider the following factors:
 - (i) opinion and comments from operations colleagues;
 - (ii) ratings from Bank or other quality reviews, monitoring reports etc.;
 - (iii) geographic and sectorial concentration representing significant parts of the bank's portfolio;
 - (iv) findings from prior investigations involving this or similar projects, or projects involving the same implementing arrangements;
 - (v) regions and countries which are identified to have a higher risk of fraud; and/or

(vi) other third party communications / complaints related to the project.

5. To finalise the selection of a project for review, the following inputs should be considered:
- (i) reviewing of available project files, including the 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 mission reports;
 - (iii) information from other IFIs and funding agencies; and/or
 - (iv) research of open source materials.

(c) COMPOSITION OF TEAM

6. The team conducting the IRR should normally include staff from the integrity function. Consideration should also be given to whether (i) staff from other departments; and/or (ii) outside consultants and experts; should join the review team.
7. Depending on the circumstances of the project etc., it may also be helpful to invite representatives from national supreme audit institutions or other relevant national authorities to participate in some capacity. They can bring certain benefits (including local knowledge) as well as providing them with an insight into IFI-financed projects which may assist in their future work.
8. In cases of projects, programmes or operations under joint and/or parallel financing, consideration should be given to inviting representatives of fiduciary / integrity functions of other financiers to participate in the IRR.
9. Consultants and/or subject matter experts may be hired to assist with the review. External services may include specialist work such as sampling/testing, laboratory services and/or technical surveys. It will be important to ensure that, as far as possible, these services are objective and independent.

(d) PLANNING

10. Prior to undertaking fieldwork, the team should advise the Borrower of the scope of the review, including identification of which entities from the Borrower and relevant national agencies may be visited, the project site(s) that may be inspected and who needs to be informed about the review.

(e) FIELDWORK

11. The fieldwork would normally entail a combination of document and electronic data review, site visits, interviews with project staff and relevant third parties, and usually include but not be limited to:
- Evaluation of the project's procurement process and financial management practices;
 - In the case of intermediated loans – review the credit decisions and procedures and financial management of the intermediary bank as well as inspect and visit final beneficiaries;
 - Review the project's procurement (including losing bids etc.);
 - Review the project's disbursement documents and analyse the project's sources and uses of funds to ensure funds were used for intended purposes;

- Inspection of the project's goods and works at selected sites;
 - Contacting the contractors and losing bidders;
 - Conducting conflict of interest checks on selected contracts;
 - Identifying any possible fraudulent or corrupt practices; and/or
 - Formulating recommendations for improvement and/or follow-up.
12. Under certain circumstances, IRRs may be conducted without direct involvement by integrity office (or equivalent) staff in the fieldwork, either by other units of the organization or by outside consultants, or a combination thereof. In such cases, terms of reference for the IRR should be drafted to outline the nature and scope of the IRR, the timing, key milestones, reporting protocols and other relevant criteria for the IRR, and agreed upon by all parties conducting the IRR on behalf of the integrity office. In addition, adequate monitoring, supervision and assistance to the parties conducting the fieldwork should be provided. There should be regular updates provided by the review team to all relevant parties.

(f) REPORTING

13. At the start of an IRR, a planning document should be prepared which describes:
- (i) the plan and methodology for undertaking the review;
 - (ii) the initial risk assessment of the project, programme or operation; and
 - (iii) if appropriate, the expected timeline and resource requirements.
14. Upon completion of an IRR, a draft report of findings should be provided to operational units for their review and comment. Depending on the feedback from operations and/or the sensitivity of the issues raised, the report can also be used to communicate findings to the Borrower, after a discussion on a communication strategy with the operational units.
15. Any comments provided by the operational units or Borrower should be documented and, if possible, verified.
16. Once the report of findings is finalised, it should form the basis of discussions with others in the bank and senior management, as appropriate.

(g) FOLLOW-UP AND RECOMMENDATIONS

17. Based on the findings, the report should make appropriate recommendations for:
- improvements in project design and/or project implementation;
 - improvements in internal or external controls; and/or
 - other remedial measures.

Such recommendations should generally be discussed with the relevant operational offices and proposed to senior management for approval where appropriate.

18. Irrespective of the stage at which they are identified, if the findings point to possible fraud or corruption, briefings with the Borrower and relevant national agencies should be approached with care in order to avoid possible destruction of evidence or other interference.
19. Based on the findings of the IRR, the integrity office may decide to initiate investigations and/or refer specific issues of 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.