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Joint Inspection Unit

Fraud prevention, detection and response in United Nations system organizations

Note by the Secretary-General

Addendum

The Secretary-General has the honour to transmit to the members of the General Assembly his comments and those of the United Nations System Chief Executives Board for Coordination on the report of the Joint Inspection Unit entitled “Fraud prevention, detection and response in United Nations system organizations” ([JIU/REP/2016/4](#)).



Summary

The report of the Joint Inspection Unit entitled “Fraud prevention, detection and response in United Nations system organizations” (JIU/REP/2016/4) offers a comprehensive review of a broad range of fraud-related activities (anti-fraud governance frameworks, fraud risk assessments, fraud prevention and detection controls and response mechanisms, among others), with a view to assessing the effectiveness of these activities. By identifying areas of strength and weaknesses and through its 16 recommendations to executive heads and legislative bodies, the Joint Inspection Unit seeks to improve the overall effectiveness of the United Nations system organizations in combating fraud.

The present note reflects the views of organizations of the United Nations system on the recommendations provided in the report. The views have been consolidated on the basis of inputs provided by member organizations of the United Nations System Chief Executives Board for Coordination (CEB), which welcomed the report and supported some of its conclusions.

I. Introduction

1. The report of the Joint Inspection Unit entitled “Fraud prevention, detection and response in United Nations system organizations” (JIU/REP/2016/4) offers a comprehensive review of a broad range of fraud-related activities (anti-fraud governance frameworks, fraud risk assessments, fraud prevention and detection controls and response mechanisms, among others), with a view to assessing the effectiveness of these activities. By identifying areas of strength and weaknesses and through its 16 recommendations to executive heads and legislative bodies, the Joint Inspection Unit seeks to improve the overall effectiveness of the United Nations system organizations in combating fraud.

II. General comments

2. Organizations of the United Nations system welcome the report of the Joint Inspection Unit on fraud prevention, detection and response and consider it a valuable contribution to increasing transparency and strengthening anti-fraud measures in the United Nations system. Organizations note that the report demonstrates an understanding of the significant challenges and improvements required to protect them from fraud and improve their ability to respond to fraud.

3. Noting that all allegations of fraudulent acts committed by any individual or entity involved in a contractual relationship with an organization should be vigorously pursued, organizations express the view that combating fraud and corruption is a primary responsibility of all United Nations system personnel, irrespective of grade or contractual status, and they are therefore applying anti-fraud measures to all relationships, including with third parties.

4. Similarly, organizations agree that the protection of whistle-blowers against retaliation is also important so as to encourage staff to report fraud or misconduct without fear of reprisal.

5. Organizations also note the importance of the support of their oversight offices in efforts to combat fraud and corruption. Some organizations suggest that the amount of time it takes to finalize investigations by their oversight bodies must be reduced so that problems are identified and corrective action taken in a timely manner. Furthermore, it was noted that the quality of such investigations needs to be such that those guilty of fraud or corruption do not escape justice.

6. Several organizations noted that while they agree with the overall thrust and principles expressed in the report, they considered some of the proposed recommendations excessive for small, headquarters-based normative agencies, and suggested that the reports for these entities could be offered for information only, as implementation would represent a large portion of a very small operational budget. These entities suggested that the Joint Inspection Unit could be more cognizant of the resource limitations of small United Nations agencies and the limited number of annual fraud-related allegations, and that the investment of resources for fraud prevention must be balanced with other disciplinary matters.

7. Several of the “soft” recommendations contained in the report were the subject of comments by organizations (see annex).

8. It was noted that in addition to its report on fraud prevention and detection, the Joint Inspection Unit has issued reports covering similar subject matters, for example, on the use of non-staff personnel; the function of the Ombudsman; the internal audit, investigation, evaluation and ethics functions; contract management; and the use of implementing partners. Organizations note the value of a holistic approach for management and administrative reform, although each new “review” by the Joint Inspection Unit and by independent oversight functions (internal and external) and other (for example, external) stakeholders may lead to a proliferation of new policies, working groups and other measures to be implemented, and have generated many individual recommendations that, as an aggregate, invariably require additional dedicated resources. In the context of scarce resources, how new resources could be made available and/or the trade-off that has to be made to reallocate existing resources to implement these emerging “review” recommendations is unclear. Therefore, the Joint Inspection Unit should be encouraged to consider the subject more holistically, perhaps through periodic reviews of its findings.

9. It was noted that many of the recommendations are very detailed and their implementation depends on the profile, size and type of activity of each United Nations system entity. It was also noted that the implementation of many of the recommendations would depend on the outcome of recommendation 5, which calls for each entity to conduct a corporate fraud risk assessment, the outcome of which will determine the profile and exposure of each entity with respect to fraud. This in turn would allow each entity to conduct a cost-benefit assessment to determine the relevance of the Joint Inspection Unit recommendations to it.

10. Beyond these general comments, organizations consider fraud a significant risk and appreciate the quality and depth of the report, as well as its analysis. In their view, the report provides an opportunity to engage management and oversight offices in detailed discussions on fraud in United Nations system organizations and serves as a catalyst for action in an important area. The overall message conveyed by organizations is that a centralized intake mechanism, proactive data monitoring and fraud risk assessment, as mentioned above, are all challenges that need to be addressed and tailored to the needs and level of resources of each organization.

III. Specific comments on recommendations

Recommendation 1

The Secretary-General of the United Nations and the executive heads of other United Nations system organizations should, in the framework of the United Nations System Chief Executives Board for Coordination (CEB), adopt common definitions regarding fraudulent, corrupt, collusive, coercive and obstructive practices and present these to their respective legislative and governing bodies for endorsement. In this regard, the definitions used by the multilateral development banks should be considered for adoption. Concurrently, a joint statement with a clear and unambiguous position on fraud should be adopted by CEB to set an appropriate “tone at the top” on a system-wide basis.

11. Organizations support efforts to harmonize common definitions regarding fraudulent and corrupt practices, agreeing that the lack of a clear definition of fraud in the context of the United Nations system hampers the development of specific guidelines and procedures and leaves the term open to ambiguities in its interpretation. Many organizations note that work to address common definitions is currently under way within inter-agency mechanisms.

12. Organizations recognize that the multilateral development banks have considered the matter in great depth and created definitions that could be useful to United Nations system organizations. However, it was noted that there was a need for some flexibility regarding the adoption of these definitions, as it was unlikely that they would suit the needs of all organizations, especially those with a broad mandate, and could result in costly revisions of several key policy guidelines that are currently in place.

13. While some organizations agreed that the proposal to submit these definitions to the governing bodies of the United Nations system entities is appropriate, others expressed reservations, citing the risk of compromising their ability to move quickly to adjust definitions on the basis of experience with implementation. They suggested instead that the definitions could be presented to the relevant bodies for information purposes.

14. Organizations supported the issuance of a joint statement by CEB that would convey a “clear and unambiguous position on fraud” and set an appropriate “tone at the top” on a system-wide basis.

Recommendation 2

The executive heads of the United Nations system organizations, if they have not already done so, shall develop a corporate anti-fraud policy for their respective organizations or update an existing one, taking into account leading practices in the public and private sectors. The policy should be presented to the legislative and governing bodies for information, adoption and/or endorsement and should be reviewed and updated regularly.

15. Organizations support recommendation 2, with many noting that activities to create and/or update anti-fraud policies are under way. Several organizations noted that they bring these policies to the attention of the governing bodies for information.

Recommendation 3

The executive heads of the United Nations system organizations should take expeditious action to designate an overall corporate manager or entity at senior level to be the custodian of the anti-fraud policy and be responsible for the implementation, monitoring and periodic review of the policy.

16. Organizations support recommendation 3.

Recommendation 4

On the basis of a comprehensive needs assessment, the executive heads of the United Nations system organizations should establish a dedicated anti-fraud

training and fraud awareness strategy for all members of the organization. At a minimum, anti-fraud training should be mandatory for staff in functional areas most prone to fraud and staff operating in fragile and high-risk field environments.

17. Organizations support recommendation 4, indicating that anti-fraud training either has already been implemented or is being planned. One organization stressed its commitment to promoting an anti-fraud/anti-corruption culture by fostering an organizational culture of integrity, transparency and accountability; providing confidential ethics advice to all staff, including managers, on appropriate standards of conduct; and including fraud and corruption awareness components in its ethics training programmes. In addition, it is preparing an intranet site that will provide information related to the prevention of fraudulent acts, including common or frequently asked questions and answers, hotlines, training materials and relevant documentation, and all staff members will be encouraged to visit the site and familiarize themselves with its contents. Some organizations are developing anti-fraud e-learning courses that are mandatory for all staff members.

18. Another organization suggests that a comprehensive approach to fraud training, taking into account changing patterns of fraud, is necessary, with regular updates to incorporate new patterns. For instance, it may be advisable to introduce a validity period on training certificates to ensure that staff members are refreshed and reminded on the matter. There could be some focused training modules on specific areas (for example, procurement). Different delivery modalities could be considered, including group training (at the regional or country office level), individual training, learning afternoons and webinars, to name just a few.

Recommendation 5

The executive heads of the United Nations system organizations should, if they have not already done so, conduct a comprehensive corporate fraud risk assessment, as an integral part of their enterprise risk management system or as a separate exercise, addressing fraud risks at all levels of their respective organization, including headquarters and field offices, as well as internal and external fraud risks. Such assessments shall be conducted at least biennially at the corporate level, and more frequently, based on need, at the operational level.

19. Organizations support recommendation 5, and many indicate that they have already conducted or are in the process of conducting a comprehensive corporate fraud risk assessment. Organizations generally agree that these assessments should be integrated into risk management processes. However, some organizations also note that conducting such comprehensive fraud risk assessments biennially may potentially be a cumbersome and costly exercise, and that the recommendation does not take into account the availability of financial resources, nor does it respond to cost-benefit principles.

Recommendation 6

The executive heads of the United Nations system organizations, if they have not already done so, should develop organization-specific comprehensive anti-fraud strategies and action plans for implementing their respective fraud

policies. Such anti-fraud strategies should be based on the organization's corporate fraud risk assessments and shall be an integral part of the overall organizational strategies and operational objectives. Based on the level of fraud risk, proportionate resources should be dedicated to operationalize the strategies and action plans.

20. Organizations support recommendation 6, although several note that the recommended "comprehensive anti-fraud strategies and action plans", while in principle unobjectionable, do not take account of available financial resources or respond to cost-benefit principles, specifically in smaller United Nations system agencies. The determination of the need for additional financial resources is not within the purview of the oversight bodies.

Recommendation 7

The executive heads of the United Nations system organizations, if they have not already done so, should initiate a review of their internal control framework to ensure that proportionate anti-fraud controls do exist and that fraud risks identified in the fraud risk assessments are adequately addressed in the internal control frameworks.

21. Organizations support recommendation 7, with many indicating that the controls noted in the recommendation are either already in place or being developed.

Recommendation 8

When introducing or updating statements of internal controls, the executive heads of the United Nations system organizations should ensure that the statements address the adequacy of organization-wide anti-fraud controls, in accordance with good practices and applicable international standards. In the absence of a formal statement of internal controls, executive heads should certify in their annual reports to legislative and governing bodies that their organization has in place proportionate anti-fraud controls based on fraud risk assessments, and that appropriate fraud prevention, detection, response and data collection procedures and processes exist.

22. Organizations support recommendation 8, with several noting either that internal fraud control procedures are already in place or that they will consider the recommendation during the process of updating their internal control framework. It was suggested that organizations could highlight significant internal fraud control weaknesses in their statements on internal control and that in order to support efforts to identify such risks, organizations can provide managers with guidance to support the preparation of the assurance statements.

Recommendation 9

The executive heads of the United Nations system organizations should instruct their legal offices to review and update the legal instruments for engaging third parties, such as vendors and implementing partners, with particular attention to anti-fraud clauses and provisions.

23. Organizations support recommendation 9, with several noting that their legal instruments already include contractual provisions that mitigate fraud and corruption risks.

Recommendation 10

The executive heads of the United Nations system organizations should ensure that proportionate fraud prevention and detection capabilities are an integral part of automation systems' functionalities, including automated activity reports and data-mining modules in their respective enterprise resource planning systems.

24. Many organizations support recommendation 10, with several indicating either that their enterprise resource planning systems already support fraud-related monitoring functions or that they are exploring adding and/or strengthening such capabilities. However, one organization also noted that the recommendation fails to account for the high cost and related risks during the launch period of revising existing functionalities and integrating potential improvements into enterprise resource planning systems already in place, adding that, more than automation of reports, this requires specialized skills to develop criteria for variable situations and the analysis of data for fraud detection and prevention. It was noted that factors such as soft controls pertaining to human behaviour cannot be automated through enterprise resource planning systems, and that without conducting even a basic cost-benefit analysis, the recommendation can be difficult to accept as is.

Recommendation 11

The executive heads of the United Nations system organizations, if they have not already done so, should revise their whistle-blower policies with a view to adopting good practices, and extend the duty to report fraud and other misconduct to contract employees, United Nations volunteers, interns and other non-staff, as well as to third parties, including vendors, suppliers and implementing partners.

25. Organizations support recommendation 11, with many noting that whistle-blower protections are already in place. One organization notes the challenge of protection for a non-staff member who experiences retaliation and the cost implications of providing this protection to non-United Nations personnel. Given the various contract modalities and the limited methods of recourse, providing remedies such as contract restoration or back pay can be difficult. Specific remedies should thus be clarified in any new policy adoption.

Recommendation 12

The executive heads of the United Nations system organizations, if they have not already done so, should implement the good practice of establishing a central intake mechanism for all fraud allegations in their respective organizations. In the interim, for organizations with decentralized intake mechanisms, immediate action should be taken to: (a) establish an obligation for decentralized intake units to report to a central authority any allegations received, ongoing cases under investigation and closed cases, indicating the action taken; and (b) establish formal intake procedures and guidelines,

including: clear criteria for the preliminary assessment, the official, office or function authorized to make the assessment, the process to be followed and the arrangements for reporting on the results of the preliminary assessments.

26. Many organizations support recommendation 12 and agree that an organizational central intake system for reporting all cases of wrongdoing is key to ensuring that there is full knowledge of cases and of the threats faced and to ensuring the completeness of fraud and presumptive fraud reporting to Member States. The Secretariat noted that the development of a central intake mechanism was also recommended by the Independent Audit Advisory Committee and the Board of Auditors.

27. However, the view was also expressed that for those organizations that have not already done so, taking responsibility for creating and managing the process for central intake may require additional resources, which could be difficult to meet from current levels, and that it could detract from the core business of the responsible department, including its ability to manage its own caseload.

28. It was also noted by an organization that central intake is not necessarily the mechanism through which most fraud allegations are made. While central intake is important, the majority of complaints in some organizations may not always be made directly through the mechanism. A central intake mechanism may be used for matters that do not always pertain to fraud or other wrongdoing. In some non-United Nations organizations, the central intake mechanism is often handled by the ethics and compliance function, and many of the reports, specifically those related to staff, will not require investigation, but might be requests for advice or information or referrals to human resources or management for response. It is important to ensure that an intake mechanism ensures accountability by referring cases correctly.

Recommendation 13

The executive heads of the United Nations system organizations, in consultation with the audit advisory committees, should ensure that the investigation function of their respective organizations establishes key performance indicators for the conduct and completion of investigations, and has adequate capacity to investigate, based on a risk categorization and the type and complexity of the investigations.

29. Most organizations support recommendation 13, although one noted that key performance indicators should be established with appropriate levels of flexibility, given the diverse nature of potential fraudulent activities, and another organization, referring to the phrase “adequate capacity to investigate”, indicated that smaller organizations with very limited resources for investigations may have difficulty in fully complying.

30. Another organization suggests that those entities that have not yet implemented the recommendation may wish to consider the key performance indicators of other organizations and innovative measures to enhance the investigation function based on practices throughout the United Nations system.

Recommendation 14

The executive heads of the United Nations system organizations, in consultation with the Office of Legal Affairs of the United Nations and their respective legal offices, should strengthen existing protocols and procedures for referrals of fraud cases (and other misconduct) to national enforcement authorities and courts for criminal and civil proceedings, as well as for asset recovery, and ensure that referrals are done in a timely and effective manner.

31. While many organizations express support for recommendation 14 and acknowledge the leadership role of the Office of Legal Affairs, several organizations noted concerns or offered comments. For example, it was noted that the implementation of the recommendation is conditioned on the boundaries set by the parameters, protocols and procedures for referrals to national authorities inherent in each organization's legal status and, in a similar vein, that these processes would in principle already be in place in all United Nations entities through host-country agreements, among other mechanisms, and depend to some degree on the responsiveness of the Member States in which they operate.

32. It was also noted that the recommendation appears to assume that existing protocols or procedures do not exist or require improvement, and that strengthening such protocols and procedures would result in more referrals to national authorities. However, organizations note that besides a legal analysis of the strengths and weaknesses of the case, substantial and careful review of salient or potential risks and liabilities is required, and in this regard the report does not assess adequately the costs and risks involved, nor does it explain why such costs are outweighed by the potential benefits.

Recommendation 15

The executive heads of the United Nations system organizations should present to their legislative and governing bodies on an annual basis a consolidated and comprehensive management report on the performance of anti-fraud activities, based on key performance indicators. The report shall include, inter alia, the level of fraud exposure, status of compliance with anti-fraud policies, fraud statistics, sanctions imposed, fraud losses and recovery of assets, and lessons learned.

33. Organizations generally accept recommendation 15, with many suggesting variations in the approach to the recommended reporting on the performance of anti-fraud activities. For example, it was suggested by an organization that the report to the legislative bodies could be best delivered through enhancements to existing reports rather than a stand-alone report on fraud, while another noted that reporting to governing bodies could be channelled through other oversight forums.

Recommendation 16

The legislative and governing bodies of the United Nations system organizations should: place on their respective agendas a permanent or standing item relating to fraud prevention, detection and response; review on an annual basis the consolidated and comprehensive management report

presented by the executive head on anti-fraud policy and activities; and provide high-level guidance and oversight on fraud-related matters.

34. Organizations of the United Nations system support the recommendation, noting that it is directed at legislative bodies; some organizations indicated that governing bodies would also need to consider the availability of resources to produce such a comprehensive report. The view was expressed by one entity that, although governing bodies could request this to be a separate item on their agenda, other bodies, such as the external audit and oversight committees, may be better placed and equipped to examine the issue and report to the governing bodies as appropriate (see also the response to recommendation 15).

Annex

Comments on soft recommendations

1. Commenting on the “soft” recommendation contained in paragraph 163 of the report of the Joint Inspection Unit (JIU/REP/2016/4),^a an organization, while expressing support for the idea that financial disclosure programmes should be broadened to include staff with functions entailing a high degree of risk of fraud (including staff managing extrabudgetary projects, regardless of their rank), noted that such measures would have cost implications that must also be considered.
2. An organization noted that paragraph 181 contained an important observation regarding fraud prevention controls relating to implementing partners, and believes that the application of similar controls to other third parties may also be useful, but points out that this might have financial implications.
3. Commenting on the “soft” recommendation contained in paragraph 305 of the report,^b an organization agreed that obtaining information about a prospective staff member’s previous involvement in fraudulent activities and the outcome of such activities and/or investigations upon recruitment could be useful. However, implementation of the recommendation could raise concerns. Given the confidentiality that surrounds investigations into fraud or other allegations of misconduct, the organization would not necessarily be able to obtain confirmation or further information on the response (including, for example, whether a negative response was accurate). Furthermore, requesting this information, even when the person had been exonerated from such allegations, might not be consistent with the principles of due process and could lead to unintended bias in the selection process.
4. One organization reiterated a point reflected in paragraph 352 of the report regarding the United Nations Global Marketplace, supporting the view that there is room for improvement, as different approaches can lead to situations whereby a United Nations system organization unknowingly contracts with a partner that may not have been sanctioned but is a subsidiary of an entity that has been sanctioned.
5. An organization also expressed support for the “soft” recommendations contained in paragraphs 346^c and 359^d of the report.

^a “It is recommended that United Nations system organizations conduct a review of their financial programmes for disclosure and declaration of interest, with a view to enhancing their effectiveness, and determine the adequacy of the coverage of staff required to participate in the programme.”

^b “It is recommended that United Nations system organizations include in application forms specific questions on staff’s previous involvement in fraudulent activities and the outcome of such activities and/or investigations. Any possible legal issues related to such action should be reviewed and cleared in advance by the legal office. Furthermore, the legal and human resources networks of the High-level Committee on Management should consult on a common approach and language to address this matter”.

^c “It is recommended that the executive heads of United Nations system organizations, if they have not yet done so, update by the end of 2016 their implementing partner policies, procedures and related legal instruments to allow for sanctioning of implementing partners, including referrals of related fraud cases to national authorities and asset recovery.”

^d “It is recommended that the executive heads of United Nations system organizations, in their capacity as members of CEB, which oversees the development of the United Nations Global Marketplace, expedite their consideration of using the United Nations Global Marketplace as the platform for automated due diligence processes for implementing partners and consultants, as well as for comprehensive information-sharing on their performance among organizations.”