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DIRECTOR-GENERAL'S BULLETIN

POLICY ON FRAUD AWARENESS AND PREVENTION

1. This bulletin contains the Policy on Fraud Awareness and Prevention, which supersedes the Policy issued on 6 June 2005.
2. The present Policy reflects, inter alia, the modifications resulting from the issuance of the Code of Ethical Conduct, UNIDO Internal Control Framework, Policy for Financial Disclosure and Declaration of Interests, Protection against retaliation for reporting misconduct or cooperating with audits and investigations, as well as the introduction of the Focal Point for Ethics and Accountability and the revised Charter of the Office of Internal Oversight Services (IOS).

POLICY ON FRAUD AWARENESS AND PREVENTION

Purpose

1. The Organization is committed to the proper use of funds and resources entrusted to it, as well as the prevention of fraud and protection of the Organization's reputation and interests. The responsibility to meet this commitment rests with all staff members of the Organization and is inclusive of other personnel as explained below. It is therefore essential that all staff members in the Organization are aware of the potential for fraud, are able to identify fraud, prevent it, and understand what to do and how to report it if they encounter suspected fraud or suspect fraudulent practices. This document is therefore intended to provide general direction and advice to management and staff members on such issues and is aimed at strengthening this process. Its issuance further demonstrates that UNIDO will do everything possible to prevent and detect fraud, and to actively pursue a policy of zero tolerance on fraud.

Background and applicability

2. Recognizing the potential impact on the Organization of fraud and dealing with it are features that strengthen the environment of trust in the Organization's operations. UNIDO's policy on fraud in all its manifestations is one of zero tolerance. The Organization does not tolerate, under any circumstances, the diversion of the resources dedicated to promoting sustainable industrial development in developing countries and countries with economies in transition.

3. The present policy statement is binding for UNIDO staff members at any level and in any position or capacity, as well as for other personnel contracted by or working for UNIDO in any capacity¹.

4. UNIDO staff members are international civil servants committed to the highest standards of integrity, professionalism and respect for diversity. These requirements ensure that staff members will remain dedicated to the objectives and purposes of the Organization outlined in the UNIDO Constitution and will place the interests of the Organization above their own, using its resources in a most responsible, efficient and prudent manner.

5. The fundamental requirement of integrity is enshrined, inter alia, in Article I of the UNIDO Staff Regulations, which makes it clear that by accepting an appointment, staff members pledge themselves to discharge their functions and to regulate their conduct with only the interests of UNIDO in view. The concept of integrity embraces all aspects of behaviour of an international civil servant, including such qualities as honesty, truthfulness, impartiality and incorruptibility. DGB(M).115 of 1 March 2010 on Code of Ethical Conduct and The Standards of Conduct for the International Civil Service (re-issued in 2001 by the ICSC and distributed by UNIDO on 4 March 2003 - UNIDO/ADM/HRM/INF.17) also provide principles and values to guide and regulate the conduct, inter alia, of staff members in certain situations; they are meant to promote common values and provide the code of behaviour expected of international civil servants.

¹ Other personnel may be consultants, experts, or any other person or entity contracted by the Organization in any capacity. The general obligations described in this policy also apply to individuals participating in the UNIDO internship programme.

Fraud and potential risk areas

6. There are many definitions of fraud, such as the one adopted in December 1996 by the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, that defines “fraud” as “an intentional act by one or more individuals among management, employees, or third parties, which results in a misrepresentation of financial statements” (Audit Guide No. 204). A legal definition of fraud, *inter alia*, is any action committed with the intent to deceive another person for the purpose of obtaining an illicit gain or an unfair advantage. Fraud, therefore, can be viewed as an intentional act that results in: wrongfully obtaining either money or some other advantage or benefit which creates a negative impact on an organization’s reputation, exposing an organization to criminal, civil or financial liability, misrepresenting financial statements, and financial or material loss.

7. Fraud, in its broadest definition may include, but not be limited to: theft, embezzlement, false statements, illegal commissions, kickbacks, conspiracies, obtaining contracts through collusive arrangements and similar devices, offering, giving, soliciting or accepting an inducement or reward in order to influence the action of any person, unauthorized acquisition of confidential information and/or its misuse, violations of UNIDO regulations, rules, policies, and procedures for personal or third party gain. Common to all is the element of false representation made knowingly, without belief in its truth, or deliberate concealment of a material fact or information that should be disclosed, for the purpose of inducing reliance on the part of another person, resulting in loss of a valuable resource or in harm to the Organization.

8. Potential risk areas where UNIDO interests are vulnerable to fraud may occur in one or more of the following areas. The purpose of this list, which is indicative and not exhaustive, is to make all staff, other personnel and entities aware of some of the specific risk areas of fraud:

- Use of resources for other than their intended purposes;
- Misappropriation or misuse of funds and assets (e.g. diversion of UNIDO property or resources for unauthorized purposes, charging personal expenses to UNIDO funds);
- Procurement, contractual or disbursement fraud (e.g. granting contracts through collusive arrangements, preferential treatment of suppliers/contractors, illegal commissions, intentional overcharging);
- Manipulation, falsification or alteration of records or documents, including of supporting documents for claims for undue entitlements, suppression or omission of the effects of transactions from records or documents, recording or approving of transactions without proper supporting documents, misapplication/misuse of accounting policies;
- Data alteration, data destruction, sale of proprietary data, malevolently attacking IT software and systems;
- Actions taken for personal benefit (e.g. bribery, gratuities, conflict of interest, personal financial benefit, misappropriation of assets, nepotism);
- Actions taken to cause the Organization to act in a manner other than it would have acted with the full knowledge of the truth (e.g. false curriculum vitae, forged university degrees and/or other educational certificates and/or employment records, fraudulent appraisal reports or certificates, false claims for, such as those for travel, educational grants, rental subsidies, false status report and requests for payment of dependency benefits);

- Illegal use of the UNIDO name/logo, emblem and intellectual property.

Control mechanisms

9. In accordance with Article IX of the Financial Regulations, UNIDO is committed to the development and maintenance of a control structure based on best practices, processes, procedures and systems. Its aim is to prevent and detect fraud, as well as to ensure the effective and economic financial administration and custody of the assets of the Organization. UNIDO also maintains necessary control mechanisms to ensure that the internal control systems, processes and procedures are periodically reviewed to assess their adequacy and introduce improvements to further strengthen them where required.

10. The Office of Internal Oversight Services (IOS), inter alia, determines and provides assurance as appropriate, that the internal control framework, as designed and represented by management (DGB(M).119 of 28 May 2010), is adequate and functioning satisfactorily to provide assurance on the adequate safeguarding of the assets and resources of the Organization as well as the efficient, effective and economic use of the Organization's resources. IOS identifies vulnerable areas and malfunctions and conducts investigative work in cases of alleged fraud. Recommendations are made to strengthen controls to avoid recurrence of such incidences.

11. The External Auditor, appointed by the UNIDO General Conference, also provides complementary oversight. The External Auditor may make observations with respect to the economy, efficiency and effectiveness of the financial procedures, the accounting systems, the internal financial controls and, in general, the administration and management of the Organization (Financial Regulation 11.4). Furthermore, in accordance with paragraph 6 of the annex to the Financial Regulations, the External Auditor is, inter alia, required to report on cases of fraud and presumptive fraud as well as on wasteful or improper expenditure of the Organization's money or other assets.

12. With respect to all reported incidents of fraud, all relevant organizational units are required to immediately review and where possible improve the effectiveness of the controls that have been breached in order to prevent similar irregularities from taking place in future.

Responsibilities

13. As stated above, the prevention of fraud and the protection of UNIDO's reputation and interests are the responsibilities of all staff members and other personnel contracted by the Organization. It is therefore essential that all staff in the Organization be able to: identify potential fraud, prevent fraud, and understand what to do if they encounter presumptive or real fraudulent practices. The Organization shall develop and conduct a training programme aimed at: increasing anti-fraud awareness, and developing skills for understanding, detecting, preventing and reporting fraudulent practices.

Staff Members and other Personnel

14. The responsibilities of all staff employed by the Organization with respect to fraud prevention and detection go beyond merely abstaining from committing fraud. As part of the

duty of loyalty, the Organization expects each staff member to ensure that the prescribed regulations, rules, policies, procedures and instructions are fully adhered to and that any malfunction or failure in the system of internal control is immediately reported to the appropriate line manager or IOS as considered appropriate. Staff may, and are encouraged to, suggest ways in which the Organization's systems and procedures could be designed or enhanced so that the opportunity to commit fraud is minimized.

15. Staff members and other personnel must not seek any financial benefit from their employment with the Organization, other than that to which they are entitled. Staff must therefore declare any interest that may prejudice their requirement to act honestly and fairly, in accordance with DGB(M).118 of 4 May 2010 Policy for Financial Disclosure and Declaration of Interests. If in doubt, it is appropriate to seek clarification in advance or declare any conflict of interest to the Focal Point for Ethics and Accountability or the Human Resource Management Branch (PSM/HRM) through their line managers.

16. All staff members and other personnel working for UNIDO have a responsibility to ensure the adequacy of the Organization's internal controls so that: (a) resources are used to achieve programme and project objectives in a manner consistent with UNIDO's mission; (b) regulations, rules, policies, procedures and instructions are followed; (c) reliable and timely information is obtained, maintained, reported and used for decision-making; and (d) programmes and projects are protected from fraud.

Management

17. Over and above their responsibilities as staff members, as stated above, managers at all levels have the additional overall responsibility for monitoring and assessing internal controls and preventing fraud. They are expected, with the support of relevant organizational units, to adhere, implement and maintain the established systems of internal controls to prevent fraud and in particular:

- To identify potential risks to which UNIDO's assets, programmes, projects, activities and interests in their area(s) of responsibility are exposed;
- To assess the identified risks, select risk avoidance options, design and implement cost-effective prevention and control measures;
- To report as soon as possible identified deficiencies in internal controls to the next level of management to allow the chain of command structure to determine the relative importance of each deficiency, as well as to IOS for appropriate action;
- To conduct due diligence and exercise due care during any recruitment process for staff members and non-staff personnel, consistent with applicable staff rules and other administrative instructions (e.g. UNIDO/AI/2012/02 dated 15 May 2012 - Individual Service Agreements);
- To make proposals for improving the economic and efficient use of UNIDO resources and establish new or improved measures.

18. Managers at all levels who fail to take appropriate action in this matter, or who directly or indirectly tolerate or condone improper activity, will themselves be held accountable.

Reporting presumptive fraud

19. Reports on presumptive fraud are handled with the utmost discretion. As stipulated in DGB(M).116 issued on 1 March 2010 (Protection against retaliation for reporting misconduct or cooperating with audits or investigations), no retaliatory action is permitted against a staff member, or a “whistleblower”, for submitting in good faith a report on presumptive fraud or for cooperating with fact-finding or investigation work subsequent to such a report.

20. IOS has been designated to receive complaints or information from individual staff members, any other personnel or third party concerning the possible existence of fraudulent activities. Allegations may be received in person, by physical mail, by email (hotline email address), by telephone (dedicated telephone number), by fax, as well as through a dedicated, web-based reporting tool (<http://www.unido.org/wrongdoing>).²

21. It should be noted that any referral should be made as soon as there is suspicion of fraud and, where possible, be substantiated by reliable information and documentation.

Evaluation and investigation of fraud allegations

22. IOS, in line with its Charter and Investigation Guidelines³, has the primary responsibility for evaluating and investigating reports of suspected fraud. In pursuing its mandate, IOS shall have full, free, and prompt access to all accounts, records, property, personnel, operations and functions within the Organization, which in the opinion of IOS are relevant to its work.

23. IOS will conduct its work with due professional care, objectivity and without any pre-conceived opinion, and with stringent regard for safekeeping and confidentiality. All disclosures of fraudulent practices will be treated seriously, and investigated as appropriate. IOS will report all proven incidents of fraud to the Director-General for funds recovery, disciplinary action, termination of contract or any other response as appropriate.

Disciplinary action

24. Staff Regulation 11.1 states that the Director-General may establish administrative machinery with staff participation that will be available to advise him or her in disciplinary cases. Staff Regulation 11.2 states that the Director-General may take disciplinary measures against staff members who do not meet the highest standards of integrity regulated by Article 11.5 of the Constitution or whose conduct is otherwise unsatisfactory; he or she may summarily dismiss a staff member for such lack of integrity or other serious misconduct.

25. The Organization will consistently impose a severe disciplinary measure that may include dismissal, or summary dismissal of staff members found guilty of fraud. Furthermore, in such cases, monies due to UNIDO by the staff member, or other personnel or contractors involved, are systematically recovered from salaries or terminal emoluments. Depending on the circumstances of each case, the Organization may pursue recovery through the national judicial authorities as applicable.

² Redirects to report form: https://www.unido.org/index.php?id=4835&ucg_no64=1/data/iosform.cfm

³ Director-General’s Administrative Instruction No.19, UNIDO/DGAI.19, 16 January 2012

26. The Organization also reserves the right to take any action it deems appropriate to protect its interests. This could include terminating the contractual relationship, pursuing criminal charges, civil proceedings or sanctions against other personnel or contractors who may have committed fraud. Such personnel or contractor will also be barred from further contractual relationships with the Organization.

Conclusion

27. Each staff member, other personnel or contractor working for UNIDO is expected to adhere fully to the principles and practices outlined in this policy statement in the knowledge that integrity, incorruptibility and transparency are requisite for the Organization's successful execution of its mandate.