

GEF/C.31/CRP.1  
June 13, 2007

**Proposed US Language Changes on Fiduciary Standards**

## Proposed US Language Changes on Fiduciary Standards

### A. Audit, Financial, Management and Control Framework

#### 5. Internal Audit

26. *Internal auditing is an independent, objective activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

We recommend making the following changes to item "c" to ensure that the internal audit entity is functionally independent.

- a. The internal audit entity is functionally independent and objective in the execution of its respective duties. There is an officer designated to head the internal audit function. The chief audit officer reports to a level of the organization that allows the internal audit activity to fulfill its responsibilities objectively.

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### B. Project/Activity Processes and Oversight

#### (2) Procurement Processes and Guidelines

28. *Agency procurement processes covering both internal/administrative procurement and procurement by recipients of funds include written standards based on widely recognized processes and an internal control framework to protect against fraudulent and corrupt practices (as defined by the International Financial Institutions Anti-Corruption Task Force)<sup>1</sup> and waste,*

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<sup>1</sup> These definitions were agreed in September 2006. The Task Force members are: The African Development Bank Group, the Asian Development Bank, The European Bank for Reconstruction and Development, the European Investment Bank Group, the International Monetary Fund, Inter-American Development Bank Group, and the World Bank Group.

**C. Investigations**

**1. Investigation Function**

We would like to reference the definitions agreed by the International Financial Institutions Anti-Corruption Task Force.

31. *The investigation function provides for independent, objective investigation of allegations of fraudulent and corrupt practices (as defined by the International Financial Institutions Anti-Corruption Task Force) in agency operations, and of allegations of possible agency staff misconduct.*

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We would like to suggest the following language regarding the need for the investigations office to be “functionally independent.”

- a. To ensure functional independence, the investigations function is headed by an officer who reports to a level of the organization that allows the investigation function to fulfill its responsibilities objectively.

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**2. Hotline & Whistleblower Protection**

32. *Agency policies provide avenues for reporting suspected ethics violations and protections for individuals reporting such violations.*

In the below, we recommend strengthening some of the language with regard to protection of whistleblowers and on the need for agencies to periodically review their procedures to keep them up to date with best practice.

- a. A hotline or comparable mechanism is in place to ensure the capacity to take in reports of suspected unethical, corrupt, fraudulent or similar activity.
- b. An intake function coordinates the reporting of hotline information, compliance and/or other business concerns from internal and external sources. The intake function maintains a certain level of autonomy from the investigations function.
- c. A whistleblower protection policy covering who is protected and defining protected disclosures, including violations of law, rule or regulation, abuse of authority, gross waste of funds, gross mismanagement or a substantial and specific danger to public health and safety. The policy defines the standard of protection from retaliation, including placing the burden on the agency to provide evidence that the involved official would have taken the same action absent the protected disclosure.

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d. Policies are in place to ensure due process, confidentiality and/or anonymity, as requested, of whistleblowers, informants and witnesses such as by using appropriate hotline technology, and preserving anonymity in reporting processes).

e. Procedures are in place for the periodic review of the handling of hotline, whistleblower, and other reported information to determine whether it is handled effectively and whether processes for protecting whistleblowers and witnesses are consistent with best international practice,

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## **INTERNATIONAL FINANCIAL INSTITUTIONS ANTI-CORRUPTION TASK FORCE**

September 2006

African Development Bank • Asian Development Bank  
European Bank for Reconstruction and Development • European Investment Bank  
International Monetary Fund • Inter-American Development Bank • World Bank

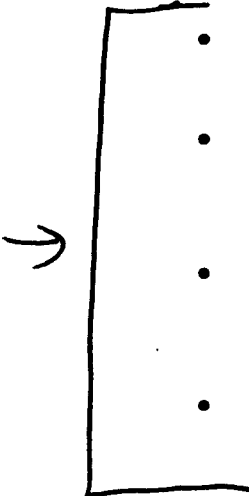
## **UNIFORM FRAMEWORK FOR PREVENTING AND COMBATING FRAUD AND CORRUPTION**

On February 18, 2006, the leaders of the African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank Group, International Monetary Fund, Inter-American Development Bank Group and the World Bank Group agreed to establish a Joint International Financial Institutions (IFI) Anti-Corruption Task Force to work towards a consistent and harmonized approach to combat corruption in the activities and operations of the member institutions. The leaders of the member institutions recognize that a unified and coordinated approach is critical to the success of the shared effort to fight corruption and prevent it from undermining the effectiveness of their work.

The IFI Task Force has agreed on the following recommended elements of a harmonized strategy to combat corruption in the activities and operations of the member institutions.\*

### **1. Definitions of Fraudulent and Corrupt Practices**

Critical to the success of a harmonized approach is a common understanding of the practices prohibited. To this end, the IFI Task Force has agreed in principle on the following standardized definitions of fraudulent and corrupt practices for investigating such practices in activities financed by the member institutions.

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- A corrupt practice is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
  - A fraudulent practice is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
  - A coercive practice is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.
  - A collusive practice is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

Each of the member institutions will determine implementation within its relevant policies and procedures, and consistent with international conventions.

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\* The Management of the IMF supports and encourages these efforts to fight corruption in project lending and dealings with private firms. Unlike the other member institutions, the IMF does not engage in project lending or lending to the private sector. It maintains procedures tailored to the circumstances of the IMF to deal with potential issues of staff misconduct and safeguard the use of Fund resources.