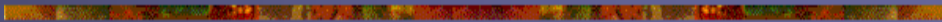


# Corruption and Fraud Awareness



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*Integrity Division (OAGI)*

*Office of the Auditor General*

# Objectives

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- Understand ADB's Anticorruption Policy
- Be more aware of fraud and corruption in ADB-financed activities
- Learn possible measures to reduce irregularities

# Agenda

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- Background of ADB Anticorruption Policy
- Investigative process
- **Fraud and corruption in ADB-financed activities**
- **Examples of fraud and corruption**
- **Controls to reduce irregularities - PPRA**
- Q & A

# Anticorruption Policy

- Adopted by ADB in 1998
- Objectives
  - Support competitive markets and effective public administration
  - Support explicit anticorruption efforts
  - **Ensure adherence to highest ethical standards**



Last Updated: Wednesday, 27 August 2008

### Main Feature

## Introducing the Asian Poverty Line



**KEY INDICATORS 2008** A special chapter in a new ADB publication — Key Indicators 2008 — offers a new way to measure poverty in the Asia and Pacific region, and also assesses the most commonly accepted methods of comparing international poverty levels. [Read the news release.](#)

- ▶ [Comparing Poverty Across Countries: The Role of Purchasing Power Parities \(Key Indicators 2008 Special Chapter Highlights\)](#)
- ▶ [Download the publication](#)

### ▶ Previous features



**Video: Chief Economist Ifzal Ali Discusses KI 2008**

### Quicklinks

- ▶ **Anticorruption and Integrity**
- ▶ [Asian Development Fund](#)
- ▶ [Board Calendar](#)
- ▶ [Disclosure](#)
- ▶ [Evaluation](#)
- ▶ [Policies and Strategies](#)
- ▶ [Strategy 2020](#)

### Resources for

Job seekers

### Opportunities

Consultant Recruitment Notices

### e-Notification

Receive ADB updates in your inbox. [Register Now](#)  
Current subscribers: [Log-in](#)

### Other ADB sites

- ▶ [ADB Compliance Review Panel](#)

### Afghanistan

▶ [All countries](#)

ADB will provide a \$55 million loan to the leading mobile phone provider in Afghanistan, so it can extend its coverage to parts of the country that have little or no telecommunications infrastructure in place. [Read the news release.](#)



▶ [Read more about the project](#)

### HIV/AIDS

▶ [All topics](#)

Effectively mitigating the spread of HIV/AIDS in infrastructure projects can be achieved through four easy and practical steps, according to a new ADB publication. [Read the news release.](#)



- ▶ [Download the Manual](#) | [中文](#)
- ▶ [Visit our HIV/AIDS website](#)

# Definitions of Prohibited Activities

To any party, under any ADB financed or managed activity:

- Corrupt practice
  - Coercive practice
  - Collusive practice
  - Fraudulent practice
  - Conflict of interest
  - Abuse
- “Corruption and Fraud”
- “Misconduct”

# Definitions

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## Corrupt Practice

**The offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.**

# Examples: Corruption

- Corrupt financial transactions
  - Bribery
  - Kickbacks
  - Extortion



# Definitions

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## Collusive Practice

**An arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.**

- **Examples: Coordination among bidders to manipulate bids, leaking of bid information...**

# Definitions

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## Coercive Practice

**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.**

- Example: Not allowing other bidders to deposit bid documents with threat

# Definitions

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## Fraudulent Practice

**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.**

# Examples: Fraud

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- Fraudulent claims
  - Consultant timesheet
  - Airfare
  - Receipts/Invoices
  - Using lower rate personnel to perform work at higher rates
  - Providing lower quality goods

# Conflicts of Interest

- A conflict of interest is any situation which could potentially and/or improperly influence your decisions and/or compromise your personal integrity, irrespective of whether benefits are actually received as a result or not.



# Anticorruption Policy

## ■ Strengthening Operations

### Procurement guidelines

- ➔ Section 1.14 -1.15 (b): fraud and corruption
- Section 1.15 (c): conflict of interest

### Guidelines on the use of consultants

- ➔ Sections 1.10 to 1.11: conflict of interest
- Sections 1.23 to 1.25: fraud and corruption

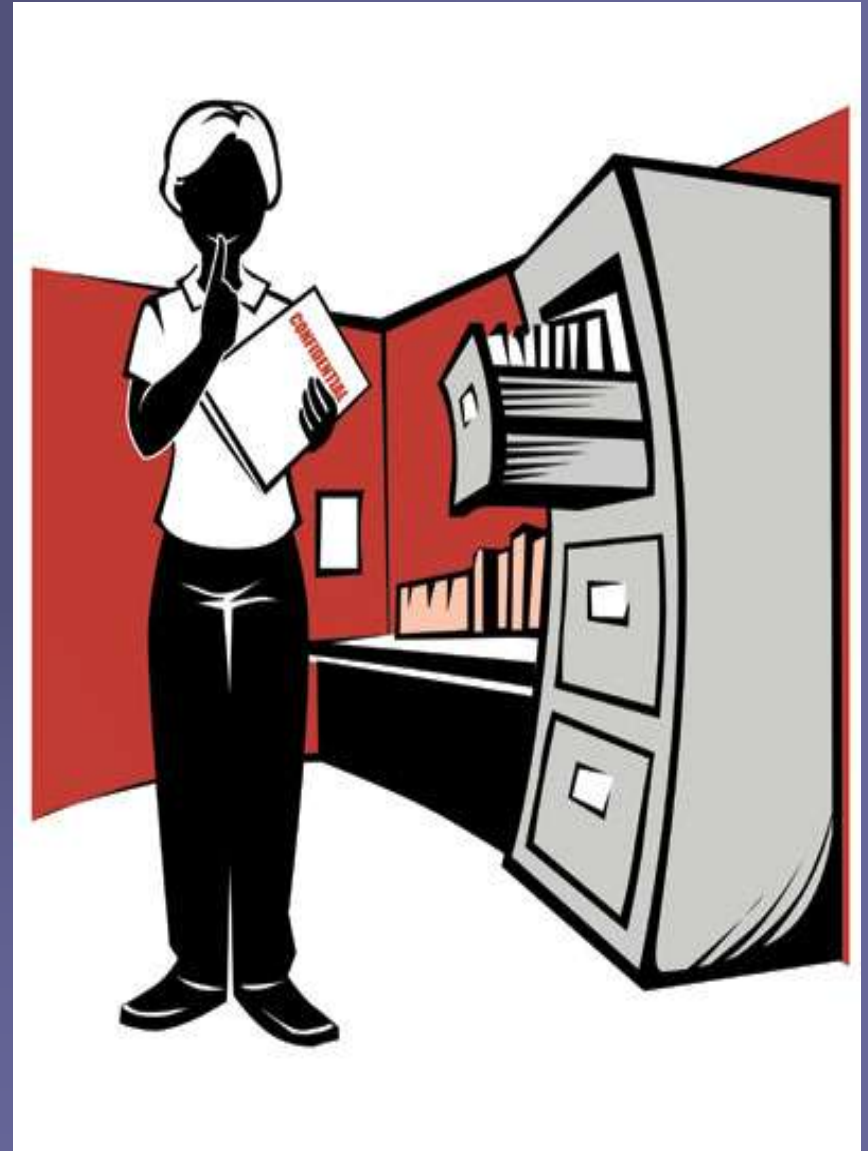


[www.adb.org/Integrity](http://www.adb.org/Integrity)

# Integrity Division

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- The focal point for all allegations of corrupt or fraudulent practices and conflicts of interest, as ADB defines them under its Anticorruption Policy.



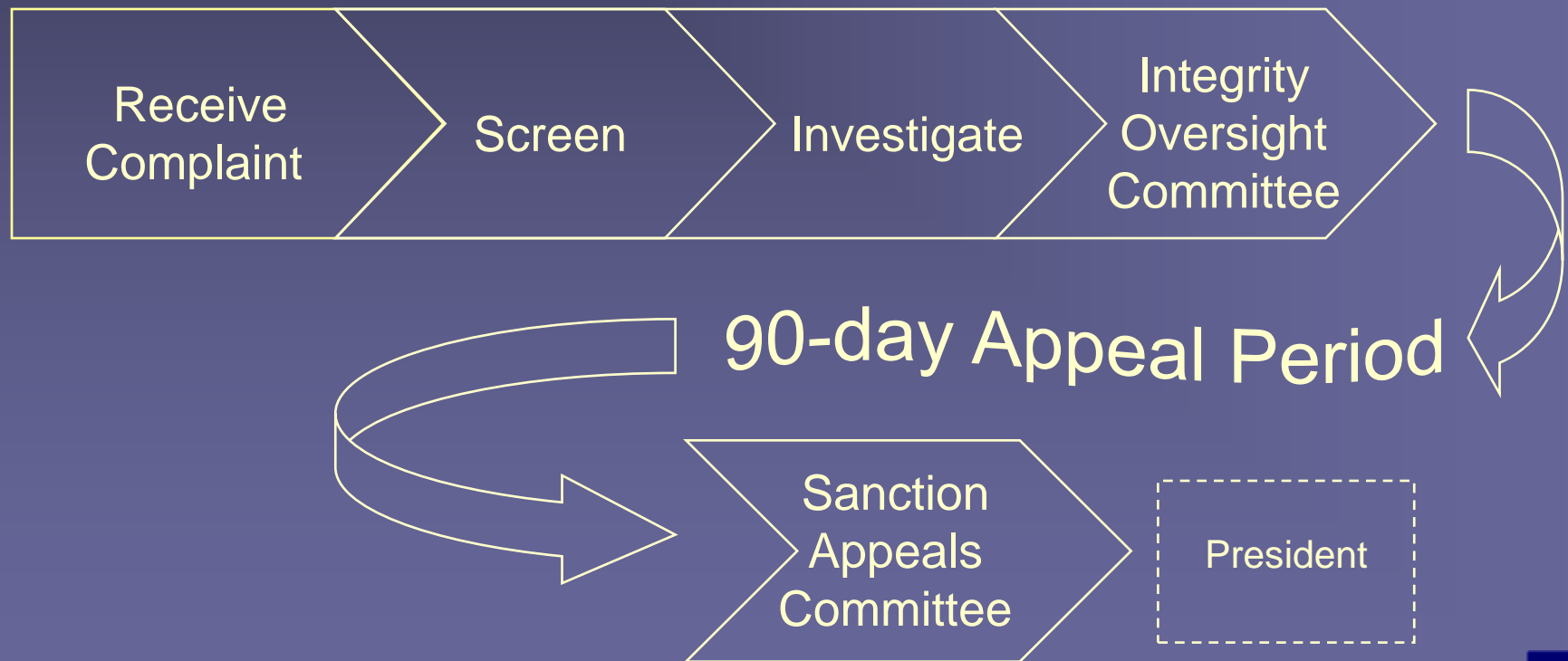
# Integrity Division

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- Provide training and promote awareness
- Conduct project procurement-related audits
- Investigate allegations/concerns

# Investigations

- Private sector participants (bidders, consultants, contractors, and suppliers)



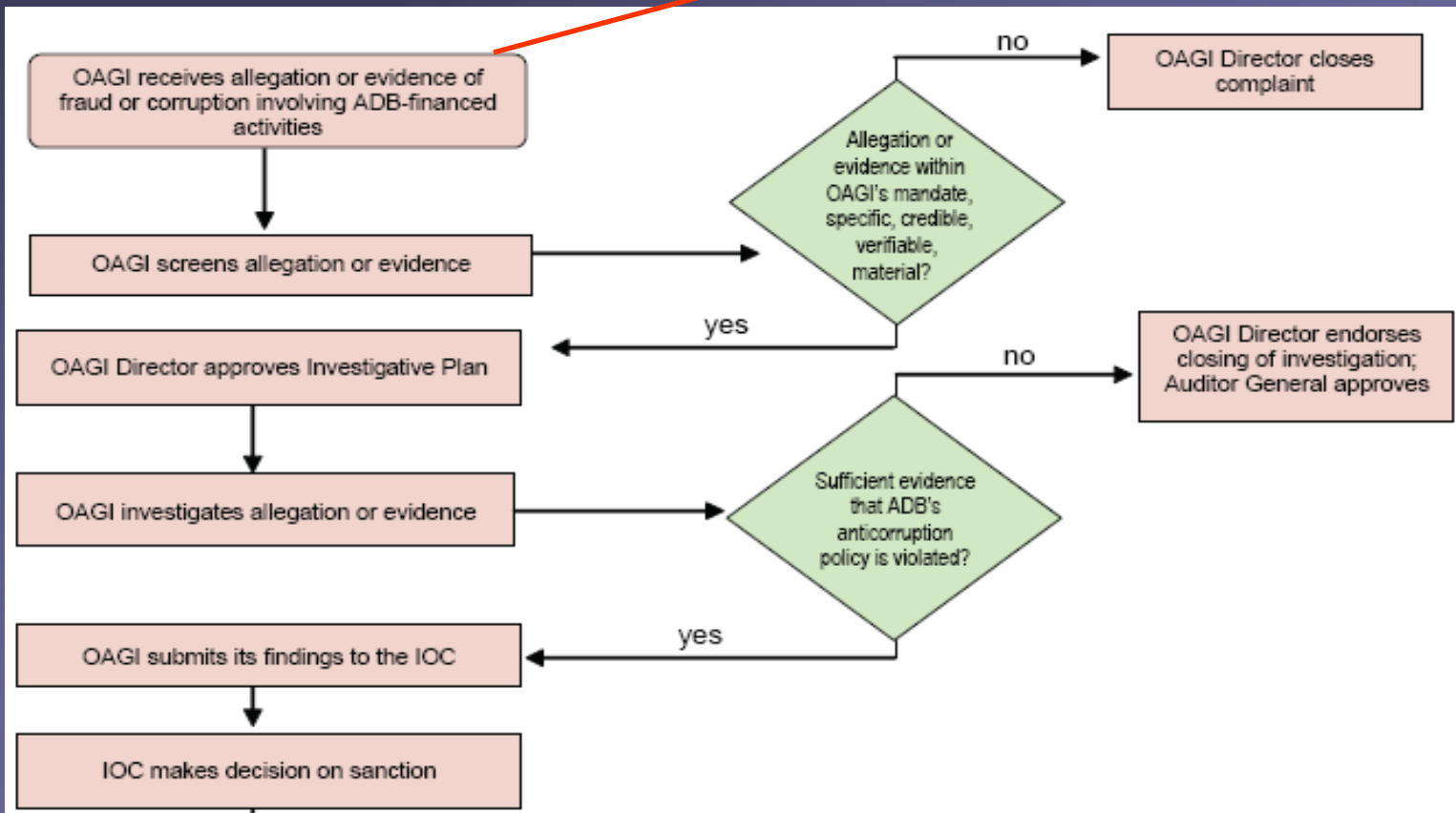
# Investigative Process

Email: [integrity@adb.org](mailto:integrity@adb.org)

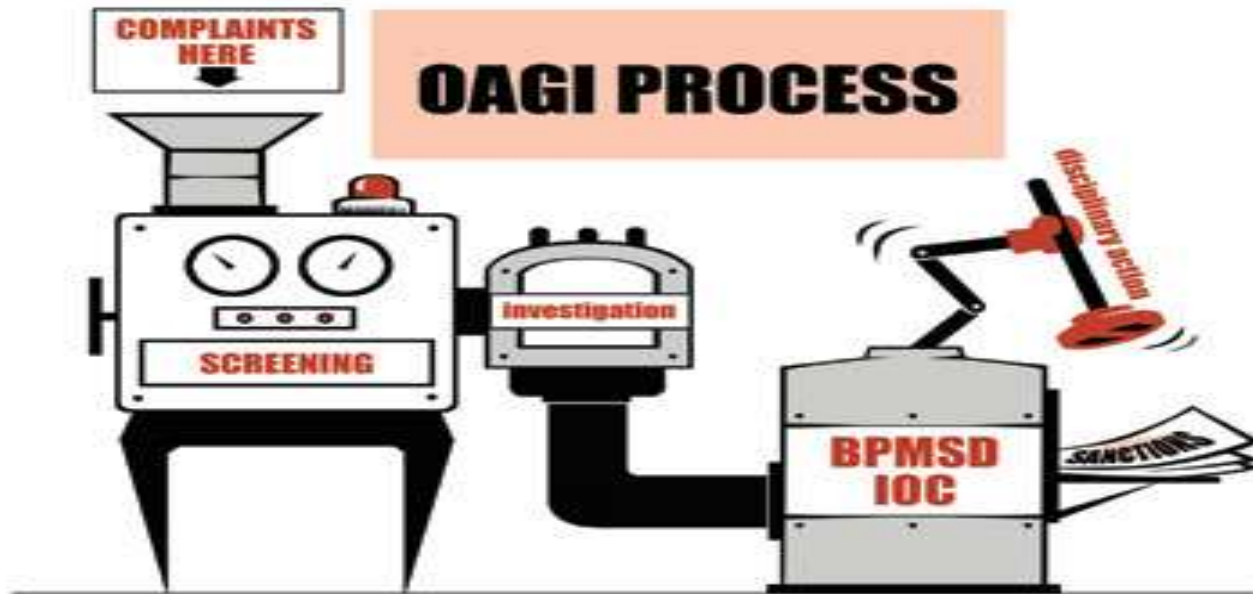
Hotline: +63-2-632.5004

Secure Fax: +63-2-636.21.52

Online: <http://www.adb.org/integrity/complaint.asp>



# Investigative Process



# Enforcement

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## ■ Remedial Actions

### ■ Reprimand

- Considered if future violations occur

### ■ Ineligibility

- Firms: as much as 7 years
- Firms: Up to 10 years for subsequent violation
- Individual: can be indefinitely

# Enforcement

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- Disclosure
  - Self-compliance expected
  - Names are not public, but reveal case nature
    - Operational departments advised
    - Executing Agencies may be advised
    - Information shared with other MDBs
  - Sanctions extended if violated

# Sanctions (as of 15 September 2008)

- 812 investigations opened; 705 closed
- Sanctions

	Firms	Individuals	Total
Total Ineligible	269	250	519
Regained Eligibility	53	32	85
Currently Ineligible	216	218	434
Reprimanded	20	11	31

# Specialized Microscope Imaging



# Falsified Used Bus Ticket

 **រថយន្តឧបសគ្គរាជ្យ មេគង្គ អ៊ិចប្រេស**  
**Mekong Express Tour Bus**

**PHNOM PENH → SIEM REAP** **PHONE 020138**

**6. \$**



NATIONALITY :	K	PRICE :	6
BUS N° :		DATE :	05-05-06
SEAT N° :	3A	TIME :	7:30

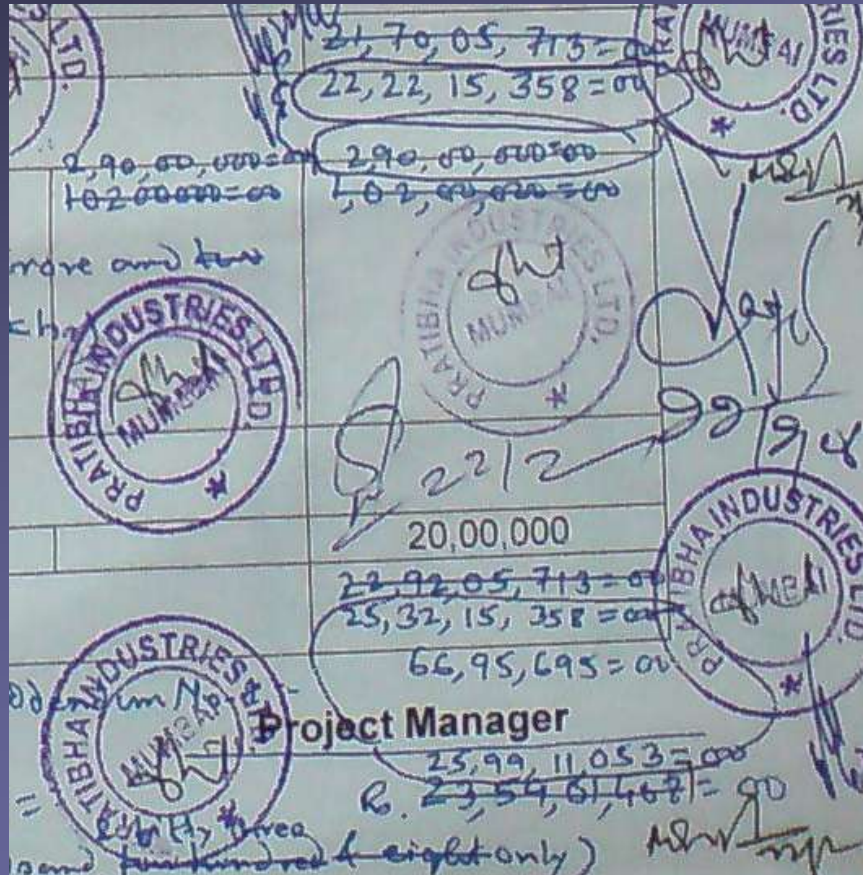
**សំបុត្រទិញប្រើមិនអាចប្តូរទិញបានទេ, មិនទទួលខុសត្រូវសម្រាប់ការខ្ចីពេលវេលា**  
**TICKET SOLD IS NON-REFUNDABLE, NO RESPONSIBLE FOR MISS TIME**



**PHNOM PENH HEAD OFFICE :** #87E0z, Sisowath Quay,  
Sangkat Wat Phnom, Khan Daun Penh, Phnom Penh, Cambodia  
Tel : (855-23) 427 518 / (855-12) 78 78 39 / 83 33 99  
Fax : (855-23) 427 168  
E-mail : mekongexpres@online.com.kh

**SIEM REAP BRANCH OFFICE :** No 14A, St.Siwatha, Phum  
Mondul 1, Khum Svay Dangkom, Siem Reap, Cambodia  
Tel / Fax : (855-83) 963 662 / (855-12) 31 58 58  
E-mail : mekongexp@camintel.com  
http://www.mekongexpresstourboat.com

# Corrected Bid Prices



# Collusive Practice

Received for opening

Project: [REDACTED]

Lot: [REDACTED]

Number of bids: [REDACTED]

Number of bids to be opened: [REDACTED]

Sl. No.	Name of Bidder	FC	LC	Disc.
1	A	5,953,750	1,644,400	Nil
2	B	5,953,750	1,644,400	Nil
3	C	5,953,750	1,644,400	Nil

By: [Signature]

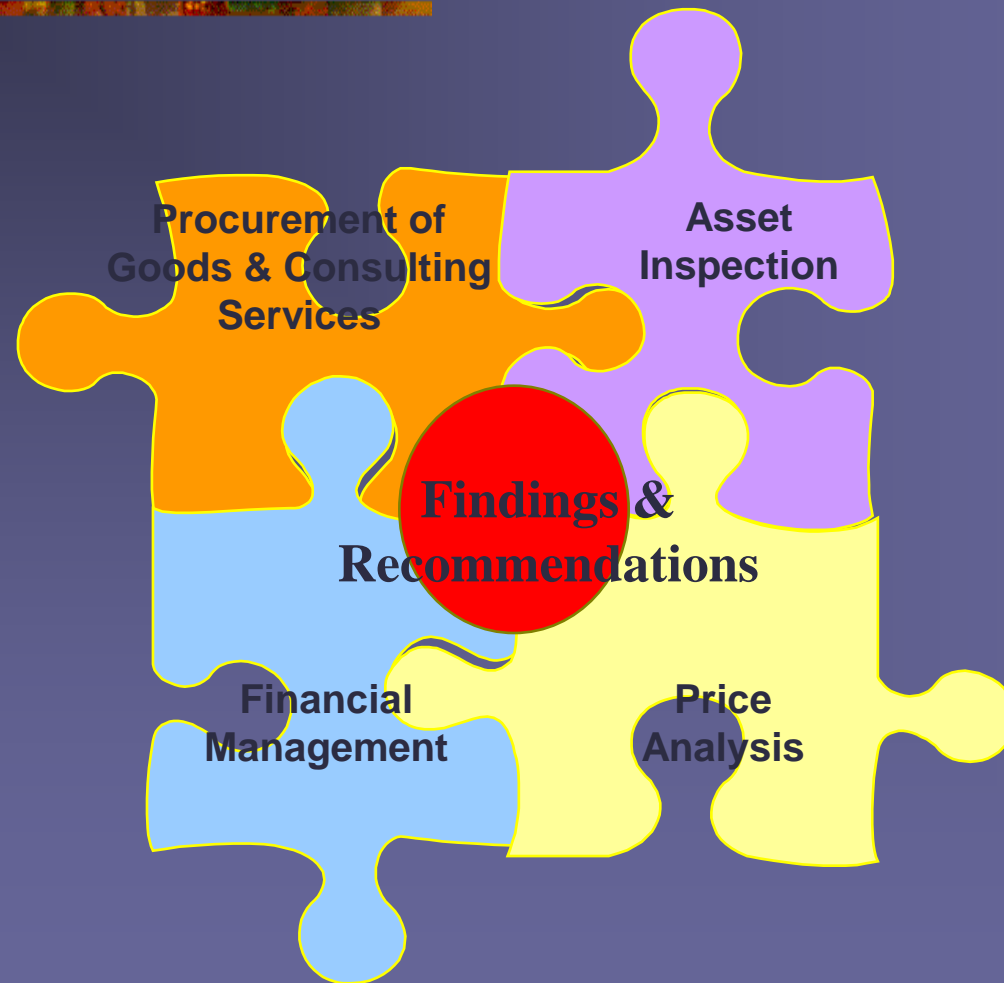
	Bid Amount		Disc.
	FC	LC	FC/LC
A	5,953,750	1,644,400	Nil
B	5,953,750	1,644,400	Nil
C	5,953,750	1,644,400	Nil

# Project Procurement-Related Audits (PPRA)

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To help prevent and detect corruption and fraud as defined under ADB's Anticorruption Policy.

# Audit Methodology



# Sub-standard Work – Example



# Sub-Standard Work – Example



# PPRA History

Year	No. of PPRAs	Country
2008	6	Afghanistan, India, Kyrgyz Republic, Mongolia, Sri Lanka, and Vietnam
2007	5	Indonesia, Lao PDR, Pakistan, Nepal, and Peoples Republic of China
2006	4	Cambodia, Fiji Islands, Philippines, and Uzbekistan
2005	4	Bangladesh, Indonesia, Mongolia, and Papua New Guinea
2004	2	India and Vietnam
2003	1	Sri Lanka

# What can go wrong?

## Issues & Controls in different stages during a procurement process

- Bid Preparation
- Bid invitation
- Bid submission
- Bid evaluation



# Bid Preparation

## What can go wrong ?

- Work estimate norms higher than market realities
- Intentionally over-estimate work/materials quantity and quality

## Key Controls

- Reform government's norms - Estimates should reflect market conditions
- Ensure project cost estimates are based on market rates - have a technically qualified 3<sup>rd</sup> party to monitor

# Bid Invitation

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## What can go wrong ?

- Ineffective communication channels and media selected
- Unclear Invitation content

## Key Controls

- Establish policy on choosing appropriate media and tender announcement duration and coverage

# Bid Invitation

## What can go wrong ?

- Short bid invitation period – less than 30 days
- Unavailable bid document for interested bidders
- False advertisement

## Key Controls

- Follow ADB procurement guidelines
- Ensure tender documents are available to all
- Widen geography of contractor access
- Ensure proper due diligence is conducted

# Bid Submission

## What can go wrong ?

- Questionable bidder data
  - More than 50% of submitted bids exhibit similarities in form and contents
  - Indication of falsified bid documents
  - Major errors/omissions in bid documents

## Key Controls

- Perform due diligence
  - Request bidders to explain and provide support
  - Assess bidder's financial data for reasonableness
  - Conduct company background check

# Bid Evaluation

## What can go wrong ?

- Overlook poor bidder capacity
- Tender committee may not be technically qualified
- Bids significantly above “ceiling” being accepted
- Awarded bidder not technically responsive and financially lowest

## Key Controls

- Ensure bid evaluation committee possess sufficient capacity and competency. Seek expert’s assistance when necessary
- Evaluation criteria should be clear, pre-agreed among all members, and adequately communicated to prospective bidders

# Bid Evaluation

## What can go wrong ?

- Bidder complaints being ignored
- Unclear evaluation criteria – open for misinterpretation
- Evaluation team may have a conflict of interest with bidders
- External parties intervening in the evaluation process

## Key Controls

- Establish a system to record and respond to bidder's inquiries and complaints.
- Bid evaluation report should be clearly documented, reviewed, and approved.
- All parties involved (especially bid evaluation committee) should declare no conflict of interest with bidders
- Randomly review bid selection process prior to contract award

# PPRA Sample Results: Asset Inspection

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- ✓ **Picture 1: Conductors nicely organized**
- ✗ **Picture 2: New Insulators stored at yard - disorganized and messy**
- ✗ **Picture 3: New Insulators covered in bushes**







# How to reduce irregularities?

## Bid Submission

- Bidder identity: full, verifiable addresses (ghost companies!)
  - and full verifiable, identity of individuals signing bids (ideally including copies of passports or IDs with picture)
  - Conduct (randomly) address checks (telephone calls, site visits)
- Data recording: establish comprehensive data base of successful and unsuccessful bidders
  - Including bank account information
  - Periodically analyze (or have analyzed) such spreadsheet or consult with OAGI
- Assess bidder's financial data for reasonableness
- Consider company background checks if appropriate

# How to reduce irregularities?

## Bid Evaluation

- Ensure bid evaluation committee possess sufficient capacity and competency. Seek expert's assistance when necessary
- Evaluation criteria should be clear, pre-agreed among all members, and adequately communicated to prospective bidders
- Establish a system to record and respond to bidder's inquiries and complaints.
- Bid evaluation report should be clearly documented
- Evaluation committee members should declare no conflict of interest with bidders

# Objectives

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- Did we achieve them?
  - Understand ADB's Anticorruption Policy
  - Be more aware of fraud and corruption in ADB-financed activities
  - Learn possible measures to reduce irregularities

# Key Message

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- If you suspect or identify any instance of fraud or corruption, contact OAGI; OAGI is ADB's focal point.



<http://adb.org/integrity>

Thank you for your  
participation

