



Report to the President  
INTEGRITY DIVISION

# 2008 ANNUAL REPORT

Office of the Auditor General

Asian Development Bank



Report to the President

INTEGRITY DIVISION

# 2008 ANNUAL REPORT

Office of the Auditor General

Asian Development Bank

© 2009 Asian Development Bank

All rights reserved. Published 2009.  
Printed in the Philippines.

Publication Stock No. RPT080001

Cataloging-In-Publication Data

Office of the Auditor General Integrity Division.

Office of the Auditor General Integrity Division: 2008 annual report.  
Mandaluyong City, Philippines: Asian Development Bank, 2009.

1. Integrity.            2. Anticorruption. Annual report.            3. Office of the Auditor General.  
I. Asian Development Bank.

Every effort has been made to ensure the accuracy of the data used in this publication. Variations in data in publications of the Asian Development Bank (ADB) often result from different publication dates, although differences may also come from source and interpretation of data. ADB accepts no responsibility from any consequence of their use.

The term “country,” as used in the context of ADB, refers to a member of ADB and does not imply any view on the part of ADB as to the member’s sovereignty or independent status.

ADB encourages printing or copying information exclusively for personal and noncommercial use with proper acknowledgement of ADB. Users are restricted from reselling, redistributing, or creating derivative works for commercial purposes without the express, written consent of ADB.

6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 4444  
Fax +63 2 636 2444  
[www.adb.org](http://www.adb.org)

For orders, please contact:  
Department of External Relations  
Fax +63 2 636 2648  
[adbpub@adb.org](mailto:adbpub@adb.org)

# Contents

<b>Abbreviations</b>	<b>v</b>
<b>Executive Summary</b>	<b>vi</b>
<b>Performance at a Glance</b>	<b>1</b>
<b>Year in Brief</b>	<b>2</b>
<b>The Integrity Division: Mandate, Staffing, and Organizational Chart</b>	<b>4</b>
<b>Achievements in 2008</b>	<b>7</b>
Allegations of Fraud and Corruption	7
Project Procurement–Related Audits and Other Activities	20
Recommendations	28
Empowerment through Communications	28
Learning and Development	32
<b>Challenges</b>	<b>35</b>
Workload and Resources	35
Information Technology, Data Management, and Analysis	35
Supporting <i>Strategy 2020</i>	35
Independence and Administration	36
<b>Whistle-Blower Protection</b>	<b>37</b>
<b>Appendixes</b>	
Organizational Chart of the Office of the Auditor General, Integrity Division	38
Fraud and Corruption Investigations, 2008	39
Significant Cases Involving ADB-Financed Activities Concluded in 2008	41
Significant Cases Involving ADB Staff in 2008	49
ADB Process for Dealing with Allegations of Fraud, Corruption, or Abuse by ADB Staff	53
ADB Process for Dealing with Allegations of Fraud or Corruption Involving Bidders, Consultants, Contractors, Suppliers, or Other Third Parties to ADB-Financed Activity	54

To the fond memory of Alfonso L. Alvarez (1960–2008), integrity officer with Office of the Auditor General, Integrity Division, from October 2004 to July 2008.

# Abbreviations

ADB	–	Asian Development Bank
AO	–	Administrative Order
BPHR	–	Human Resources Division
BPMSD	–	Budget, Personnel and Management Systems Department
COSO	–	Central Operations Services Office
DMC	–	developing member country
FAQs	–	frequently asked questions
ICT	–	information and communication technology
IOC	–	Integrity Oversight Committee
MDB	–	multilateral development bank
NGO	–	nongovernment organization
OAGF	–	Office of the Auditor General, Financial, Administrative, and Information Systems Division
OAGI	–	Office of the Auditor General, Integrity Division
OECD	–	Organisation for Economic Co-operation and Development
PPRA	–	project procurement-related audit
RSDD	–	Regional and Sustainable Development Department
SAC	–	Sanction Appeals Committee
SAI	–	supreme audit institution
TA	–	technical assistance

## NOTE

In this report, “\$” refers to US dollars.

# Executive Summary

## Introduction

With the threat of global recession, new funding for development aid projects in the developing world becomes more difficult to obtain as contributing nations tighten their belts and focus on bolstering their economies. Therefore, it is more critical than ever to use and deliver existing development financing effectively.

It is well established that a major obstacle to the effective delivery of development projects is corruption. Unfortunately, corruption is both systemic and deeply entrenched in some developing countries. In addition to public corruption, multinational companies involved in development projects—mostly based in developed nations but also in developing countries<sup>1</sup>—have been identified as often aiding and abetting systemic corruption to secure contracts. International finance institutions are, likewise, not immune from corruption.

To ensure that those participating in activities and projects funded by the Asian Development Bank (ADB) meet the highest standards of integrity, the Office of the Auditor General, Integrity Division (OAGI) acts as the focal point of ADB's anticorruption drive. On a day-to-day level, OAGI investigates allegations received, advises on prevention, and spreads awareness of anticorruption issues.

This publication describes OAGI's main activities and achievements in 2008 toward the fight against corruption in ADB-financed activities and projects.

## Complaints and Investigations

In 2008, OAGI received a total of 186 complaints, including allegations against individuals and firms involved in ADB-financed activities, as well as against ADB staff members. It screened 197 open complaints (including those that remained open from 2007); from these, it opened 89 investigations. To gain further clarity into some of its more complex investigations, eight investigative missions were conducted. Investigations pertaining to ADB-financed activities resulted in 38 individuals and 41 firms being sanctioned. Complaints and investigations involving ADB staff members resulted in seven recommendations that addressed disciplinary procedures against those concerned, as well as those made to enhance operational procedures and practices.

During the year, internal guidelines on interviews and the use of electronic equipment for interviews were established and applied. OAGI personnel were trained in interviewing techniques, which will be built on in 2009. Investigative analysis software will be augmented in early 2009 to enhance data analysis and identify trends in ADB-financed activities that may point toward corrupt activity. Work also continues in relation to ensuring existing software is responsive to case management and information needs.

---

<sup>1</sup> See Transparency International. 2008. *2008 Bribe Payers Index*. Available: [www.transparency.org/news\\_room/in\\_focus/2008/bpi\\_2008](http://www.transparency.org/news_room/in_focus/2008/bpi_2008)



## Project Procurement–Related Audits and Other Activities

OAGI conducted four project procurement–related audits (PPRAs) this year. PPRAs are designed to identify indicators of fraudulent and corrupt activity in ADB-financed projects as well as project management improvements and recommendations for the remainder of a project’s life. They also provide relevant ministries and governments with more information and tools regarding the standards expected and compliance required for ADB-financed projects, which ultimately prevent corruption and enhance effective project delivery through strong project management controls and compliance with ADB guidelines.

In 2008, PPRAs were completed in Afghanistan, Kyrgyz Republic, Mongolia, and Viet Nam.

OAGI will conduct up to six targeted PPRAs in 2009. These will differ from past practice in that scope of the individual audits may be modified based on identified risks and operational concerns to target areas of potential fraud and corruption more directly.

### Water Outlet in Central Asia



Before rehabilitation



After rehabilitation



## Empowerment through Communications

OAGI expended significant efforts on outreach and communication in 2008 to ensure that ADB's zero-tolerance policy to fraud and corruption is firmly entrenched in all levels of the institution. It established a quarterly e-newsletter, published a handbook on frequently asked questions (FAQs) on anticorruption and integrity, and issued a revised anticorruption chapter for ADB's *Operations Manual*.<sup>2</sup> The FAQs were written to provide more clarity on how ADB perceives fraud and corruption and equip staff members with examples and tools with which to combat corruption within their spheres of activity.

Translations of ADB's *Anticorruption Policy*<sup>3</sup> and *Integrity Principles and Guidelines*<sup>4</sup> have been published in Lao. Translations in Russian and Khmer are ongoing. Sanctions and advisories are published regularly in ADB's daily internal newsletter, *ADB Today*, to disseminate lessons learned and share prevention techniques. OAGI also continued to respond to anticorruption-related inquiries.

These efforts aim to empower ADB staff members and others involved in ADB-financed projects to prevent fraud and corruption in their work. At the very least, it is hoped that greater familiarity and understanding of ADB's anticorruption policy and code of conduct<sup>5</sup> will result in a culture of high integrity among staff members and stakeholders, reducing levels of fraud and corruption in ADB-financed activities and projects.

## Empowerment through Collaboration

A key part of OAGI's holistic strategy in fighting corruption is to work closely with all ADB departments, other multilateral development banks, and stakeholders. In 2008, OAGI collaborated with the Budget, Personnel and Management Systems Department (BPMSD) on training, disciplinary actions, and development of whistle-blower provisions; with the Office of Information Systems and Technology on investigations and strengthening information technology systems and processes; with the Department of External Relations on publications and outreach; with the Central Operations Services Office, Controller's Department, and regional departments on fraud identification, prevention, and investigation; with the Regional and Sustainable Development Department (RSDD) on implementation of the Second Governance and Anticorruption Plan; and with the Office of Administrative Services on strengthening internal procurement and investigations.

## Learning and Development

Awareness raising and enhancing knowledge are key components of OAGI's strategy on fighting corruption. OAGI conducted 19 briefing sessions during the year for incoming ADB staff members to emphasize their responsibility to apply ADB's anticorruption policy in their everyday roles. Three technical assistance projects enabled anticorruption workshops to be conducted in the Kyrgyz Republic and Papua New Guinea, which were attended by ADB resident mission personnel, government officials and project officers, and supreme audit institution representatives. There was also active collaboration between OAGI and RSDD—which are responsible for governance and capacity development—in the 6<sup>th</sup> Regional Anti-Corruption Conference of the ADB–Organisation for Economic Co-operation and Development (OECD) Anti-Corruption Initiative for Asia and the Pacific.

OAGI continued to build ties and coordinate its anticorruption investigative efforts with other multinational development banks, and contribute toward and assist with the conduct of international forums on anticorruption. OAGI also continued to develop the capacity of its staff members. In close

<sup>2</sup> ADB. 2008. *Operations Manual*. Manila.

<sup>3</sup> ADB. 1998. *Anticorruption Policy*. Manila.

<sup>4</sup> ADB. 2006. *Integrity Principles and Guidelines*. Manila.

<sup>5</sup> ADB. 2006. *Code of Conduct*. Manila.

coordination with ADB's Learning and Development Unit, BPMSD, OAGI staff members were able to participate in a number of high-quality training programs. Staff capacity was also addressed at the divisional level, with 4 days set aside in 2008 for team building and internal training. OAGI staff members also underwent training tailored to specific individual needs that built their capacity both in relation to investigative work as well as overall professional development.

## Challenges

Balancing staff and other resources against the breadth and scope of work within OAGI's mandate continued to be a demanding exercise. From a team of 15 at the start of the year, OAGI finished 2008 with 12 staff members. OAGI expects one additional professional staff member and one national officer to be added by January 2009. Throughout the year, OAGI had two staff consultants who provided valuable contributions to complement efforts of other OAGI staff members; it is intended that this will continue in 2009.

In 2009, more focus will be given to ensure that OAGI supports ADB's long-term strategic framework 2008–2020 (*Strategy 2020*) to the extent that resources permit. OAGI has increasingly assisted in the process of integrity due diligence by investigating "red flags" and advising the Private Sector Operations Department on integrity risk issues associated with such red flags. In 2008, OAGI also provided advice and assistance on integrity due diligence and plans to continue this level of support. However, OAGI does not have the resources to conduct risk assessments for Private Sector Operations Department and nonsovereign transactions, which would support private sector operations and development. To support infrastructure as a core ADB operational area, OAGI will increase its scrutiny of fraud and corruption allegations in ADB's infrastructure development projects.

OAGI's data management system is now 7 years old. With the assistance of the Office of Information Systems and Technology, the system is being upgraded. In 2008, OAGI's information management system was upgraded and a new server was provided. However, considerable staff resources still need to be expended to input and extract data manually, as well as to conduct any meaningful data analysis. OAGI staff members do not yet benefit from more sophisticated intelligence analysis software that is the market standard for investigators. This will be partially rectified in 2009 with the limited introduction of new intelligence analysis software. Nevertheless, both intelligence analysis and data management will continue to be a major challenge for OAGI.

## Whistle-Blower Protection

In the fourth quarter of 2008, OAGI circulated draft whistle-blower provisions for internal comment. OAGI will post a revised draft on the internet for external comments as early as possible in 2009.



# Performance at a Glance

Key Achievements	Number
Complaints screened	186
Investigations commenced	89
Investigative missions conducted	8
Individuals sanctioned/reinstated	38/7
Firms sanctioned/reinstated	41/15
Referrals made in relation to ADB staff members	8
Appeals reviewed—individuals/firms	3/5
Project procurement–related audits conducted	4
Recommendations made	46
Trainings in which OAGI staff members participated	12
Orientation seminars conducted on anticorruption for new ADB staff members	19
Presentations on ADB’s anticorruption policy conducted for business delegations and ADB’s Board of Directors	4
<i>Anticorruption and Integrity</i> e-bulletin issued	3
Regional seminars on anticorruption run	6
Workshops on corruption and fraud awareness run	3
Integrity forums attended	3
Investigators’ conferences attended	1
Multilateral development bank harmonization and collaboration meetings attended	3

# Year in Brief

Month	Event
January	<ul style="list-style-type: none"> <li>Submitted OAGI's 2008 work plan</li> <li>Participated in the Second Session of the conference of the States Parties to the United Nations Convention against Corruption</li> <li>Participated in consultations and meetings with ADB's North American Regional Office and the World Bank</li> </ul>
February	<ul style="list-style-type: none"> <li>Released <i>OAGI 2007 Annual Report</i></li> <li>Conducted investigative missions in Indonesia and the United States of America</li> <li>Hosted the MDB Integrity Forum at ADB headquarters</li> <li>Presented two cases to the IOC for consideration of sanctions</li> </ul>
March	<ul style="list-style-type: none"> <li>Posted OAGI's annual report on ADB website</li> <li>Conducted investigative mission in Indonesia</li> <li>Briefed Norwegian and Swedish delegations on ADB's anticorruption policy</li> <li>Presented fraud and corruption awareness at the NGO Forum on ADB members</li> <li>Conducted fraud and corruption awareness workshop at the Kyrgyz Republic Resident Mission</li> <li>Conducted PPRA planning for a loan to the Kyrgyz Republic<sup>a</sup></li> </ul>
April	<ul style="list-style-type: none"> <li>Conducted investigative mission in the Kyrgyz Republic</li> <li>Conducted PPRA planning for a loan to Afghanistan<sup>b</sup></li> <li>Conducted PPRA planning for a loan to Mongolia<sup>c</sup></li> <li>Presented five cases to the IOC for consideration of sanctions</li> <li>Released the first issue of the <i>Anticorruption and Integrity</i> e-bulletin</li> </ul>
May	<ul style="list-style-type: none"> <li>Conducted investigative mission in the Kyrgyz Republic</li> <li>Conducted investigative mission in the United States of America</li> <li>Conducted PPRA planning mission for a loan to Viet Nam<sup>d</sup></li> <li>Conducted fraud and awareness corruption workshops in the Kyrgyz Republic under two regional technical assistance activities<sup>e</sup></li> <li>Conducted PPRA fieldwork and wrap-up, and presented findings to the government for the loan to the Kyrgyz Republic</li> <li>Appointed integrity specialist</li> </ul>
June	<ul style="list-style-type: none"> <li>Conducted PPRA fieldwork and wrap-up, and presented findings to the government for the loan to Mongolia</li> <li>Presented at the 9<sup>th</sup> Conference of International Investigators on investigative interviewing</li> <li>Attended the MDB Integrity Forum</li> <li>Presented one case to the IOC for consideration of sanction</li> </ul>
July	<ul style="list-style-type: none"> <li>Presented ADB's anticorruption policy at the Regional Seminar on Project Implementation and Administration</li> <li>Conducted PPRA fieldwork for the loan to Viet Nam</li> <li>Circulated the draft revised anticorruption amendments to the operations manual for interdepartmental comments</li> <li>Presented three cases to the IOC for consideration of sanctions</li> <li>Released the second issue of the <i>Anticorruption and Integrity</i> e-bulletin</li> <li>Appointed integrity specialist</li> <li>Integrity officer separated from OAGI</li> </ul>

Month	Event
August	<ul style="list-style-type: none"> <li>Conducted investigative mission in Singapore</li> <li>Ran fraud and corruption awareness workshop for South Asia Department staff members</li> <li>Conducted PPRA fieldwork for the loan to Afghanistan</li> <li>Presented four cases to the IOC for consideration of sanctions</li> <li>Senior integrity specialist separated from OAGI</li> </ul>
September	<ul style="list-style-type: none"> <li>Participated and presented at the 26<sup>th</sup> Cambridge International Symposium on Economic Crime</li> <li>Consulted and collaborated with the International Fund for Agricultural Development, United Nations Office of Internal Oversight Services, and World Food Programme on anticorruption investigation procedures</li> <li>Presented one case to the IOC for consideration of sanction</li> </ul>
October	<ul style="list-style-type: none"> <li>Presented fraud and corruption awareness at the orientation for compliance review panel members</li> <li>Conducted fraud and corruption awareness workshop in Papua New Guinea<sup>f</sup></li> <li>Participated in the MDB Integrity Forum and meeting on due diligence in private sector operations</li> <li>Released the third issue of the <i>Anticorruption and Integrity</i> e-bulletin</li> <li>Disseminated frequently asked questions on anticorruption and integrity</li> <li>The President and ADB's Management Committee endorsed OAGI's proposal to consolidate and update ADB's whistle-blower provisions</li> <li>Released draft PPRA report for a loan to Indonesia<sup>g</sup></li> </ul>
November	<ul style="list-style-type: none"> <li>Conducted investigative mission in Indonesia</li> <li>Participated and presented at the 6<sup>th</sup> Regional Anti-Corruption Conference of the ADB–OECD Anti-Corruption Initiative for Asia and the Pacific</li> <li>Presented four cases to the IOC for consideration of sanctions</li> <li>Released draft PPRA report for the loan to the Kyrgyz Republic</li> </ul>
December	<ul style="list-style-type: none"> <li>Conducted investigative mission in Indonesia</li> <li>Presented four cases to the IOC for consideration of sanctions</li> <li>Released draft PPRA report for the loan to Afghanistan</li> <li>Released draft PPRA report for the loan to Viet Nam</li> <li>The President approved amendments to the <i>Operations Manual</i> on anticorruption (see <a href="http://www.adb.org/Documents/Manuals/Operations/OMC5.pdf">www.adb.org/Documents/Manuals/Operations/OMC5.pdf</a>)</li> <li>Issued final PPRA report for the loan to Mongolia</li> <li>Issued final PPRA report for the loan to the Kyrgyz Republic</li> </ul>

ADB = Asian Development Bank; IOC = Integrity Oversight Committee; MDB = multilateral development bank; NGO = nongovernment organization; OAGI = Office of the Auditor General, Integrity Division; OECD = Organisation for Economic Co-operation and Development; PPRA = project procurement-related audit; TA = technical assistance.

<sup>a</sup> ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for the Agriculture Area Development Project*. Manila (loan 1726-KGZ[Sf]).

<sup>b</sup> ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Afghanistan for the Emergency Infrastructure Rehabilitation and Reconstruction Project*. Manila (loan 1997-AFG[Sf]).

<sup>c</sup> ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Second Health Sector Development Project*. Manila (loan 1998-MON[Sf]).

<sup>d</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Upper Secondary Education Development Project*. Manila (loan 1979-VIE[Sf]).

<sup>e</sup> ADB. 2006. *Regional Technical Assistance for Regional Seminars on Anticorruption, 2006–2007*. Manila (RETA-6311), and ADB. 2008. *Regional Technical Assistance for Enhancing Collaboration with Supreme Audit Institutions through Project Procurement Related Audits*. Manila (RETA-6449).

<sup>f</sup> ADB. 2008. *Regional Technical Assistance for Seminars on Anticorruption, 2008–2009*. Manila (RETA-6447).

<sup>g</sup> ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Poor Farmers' Income Improvement through Innovation Project*. Manila (loan 1909-INO[Sf]).

# The Integrity Division: Mandate, Staffing, and Organizational Chart

## Mandate

The Asian Development Bank's (ADB) Integrity Division (OAGI) is part of the Office of the Auditor General, an independent office under the Office of the President. OAGI screens and investigates allegations of fraud, corruption, coercive practice, collusive practice, conflict of interest, and abuse in ADB-financed activities,

including allegations against ADB staff members. It was established in September 1999<sup>6</sup> as the Anticorruption Unit and became the Integrity Division in January 2005.

OAGI works reactively and proactively to ensure that ADB funds are used solely for the purposes that they are intended. OAGI does this by

- ◆ conducting independent and objective investigations of fraud, corruption, or

### Box 1: Mandate of the Integrity Division

- ◆ Conduct independent and objective investigations of fraud, corruption, collusive practice, coercive practice, conflict of interest, and certain misconduct known to or identified by the Office of the Auditor General, Integrity Division (OAGI).
- ◆ Conduct project procurement-related audits of ADB-financed activities to help prevent and detect fraud, corruption, or other forms of abuse.
- ◆ Advance awareness of ADB's anticorruption policy, *Integrity Principles and Guidelines*, and related procedures by
  - o providing training
    - ◆ in relation to the anticorruption policy, *Integrity Principles and Guidelines*, and related procedures, including corruption and fraud awareness and internal control mechanisms to detect and deter corruption and fraud;
    - ◆ to ADB staff members and other parties involved in ADB-financed or -supported activities; and
    - ◆ in coordination with Budget, Personnel and Management Systems Department (BPMSD) and other departments/offices, as appropriate; and
  - o supporting ADB's efforts to strengthen supreme audit institutions' audit and fraud detection capacities of its developing member countries.
- ◆ Formulate and promulgate guidelines and procedures relating to its investigative and audit activities for the President's approval.
- ◆ Consult and collaborate with other multilateral development banks, international institutions, or other relevant parties to exchange ideas, practical experience, and insight on how best to address fraud, corruption, and abuse internally and externally.

Source: OAGI.

<sup>6</sup> Note, however, that actual investigative work commenced in 1998.



abuse known to or identified by OAGI in all ADB projects and programs;

- ◆ conducting ADB-financed procurement-related audits to help prevent and detect fraud, corruption, or other forms of abuse;
- ◆ advancing awareness of ADB's anticorruption policy<sup>7</sup> and procedures;
- ◆ providing training related to the anticorruption policy and procedures, including corruption and fraud awareness and internal control mechanisms to detect and deter corruption and fraud, to ADB staff members and other parties involved in ADB-financed or -supported activities;
- ◆ consulting and collaborating with other multilateral development banks, international institutions, or other relevant parties to exchange ideas, practical experience, and insight on how best to address fraud, corruption, and abuse internally and externally; and
- ◆ supporting ADB's efforts to strengthen supreme audit institutions' audit and fraud detection capacities of its developing member countries (DMCs).

## Interagency Collaboration and Harmonization

ADB, working with African Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund, and World Bank, developed a uniform framework for preventing and combating fraud and corruption. This uniform framework includes common principles and guidelines for investigations conducted by respective investigative units and harmonizes the definition of corrupt and fraudulent practices.

ADB adopted these harmonized definitions in *Integrity Principles and Guidelines*,<sup>8</sup> which are used by OAGI to guide the conduct of investigations. OAGI also collaborates with the respective investigative units of these multilateral development banks to avoid duplicity, encourage mutual use of expertise, and share information.

## Building on Intelligence-Driven Investigations

OAGI has endeavored to be more proactive in the detection of fraud and corruption in ADB-financed activities by employing existing intelligence in its database to drive investigative decisions. For example, drawing on existing intelligence, OAGI is able to identify thematic areas or sectors where systemic fraud and corruption is suspected and target investigations to successful conclusion.

## Staffing

OAGI had a total of 12 staff members on board as of 31 December 2008, comprising the director, five professional staff members, three technical staff members, and three administrative staff members. Table 1 shows OAGI's actual staff composition from 2005 to 2008 as well as projected figures for 2009.

There was significant staff movement in 2008. The untimely death of one integrity officer in July 2008 and one senior integrity specialist's 2-year leave without pay left a vacuum in OAGI's resources. A new integrity officer was appointed later in the year, and two integrity specialists were also recruited. As of 31 December 2008, one integrity specialist position and two associate integrity analyst positions remained vacant.

OAGI engaged two staff consultants during 2008 to complement the work of its professional staff, while a third consultant was engaged to assist with the administration of regional anticorruption seminars held in Papua New Guinea in October. In addition, two local consultants were retained to assist with the administration of regional seminars held in Papua New Guinea and the Kyrgyz Republic.

OAGI also retained the services of qualified firms to perform investigative work, under its supervision, when required.

<sup>7</sup> ADB. 1998. *Anticorruption Policy*. Manila.

<sup>8</sup> ADB. 2006. *Integrity Principles and Guidelines*. Manila.

**Table 1: OAGI Staffing, 2005–2009**

<b>Position</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Director	1	1	1	1	1
Principal integrity specialist	–	–	1	1	1
Senior integrity specialist	1	2	3	2	1
Integrity specialist	3	2	1	3	4
Senior integrity officer	–	–	1	1	1
Integrity officer	2	1	1	1	2
Associate integrity analyst	1	2	2	3	3
Assistant integrity coordinator	–	–	1	1	1
Senior administrative assistant	1	1	–	–	–
Administrative assistant	1	1	2	2	2
<b>Total staff members</b>	<b>10</b>	<b>10</b>	<b>13</b>	<b>15</b>	<b>16</b>

OAGI = Office of the Auditor General, Integrity Division.

Source: OAGI.

# Achievements in 2008

## Allegations of Fraud and Corruption

### Complaints Received

In 2008, the Office of the Auditor General, Integrity Division (OAGI) received 186 new complaints of fraud and corruption from a variety of sources. Fifty-five percent of these complaints were received from outside parties, 44% from ADB staff members, and 1% from audit reports (see Figure 1).

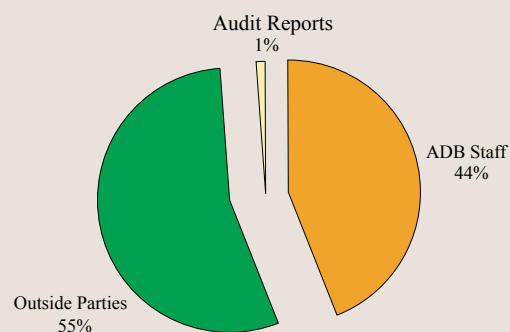
This represents a decrease of 12% from the 211 complaints received in 2007. In part, this is because OAGI has not yet opened any cases from “red flags” identified in project procurement–related audits (PPRAs) and because PPRAs are no longer logged as complaints. If an adjustment is made for the 28 complaints that were opened in 2007 from PPRA red flags, the actual percentage change is a marginal increase of 2% in new cases.

Of the 211 complaints received in 2007, 11 were still being screened in 2008.

Under *Integrity Principles and Guidelines*, OAGI must examine each complaint that it receives. Complaints to OAGI may be made in writing, by telephone, by e-mail, online, or by visiting OAGI at ADB.

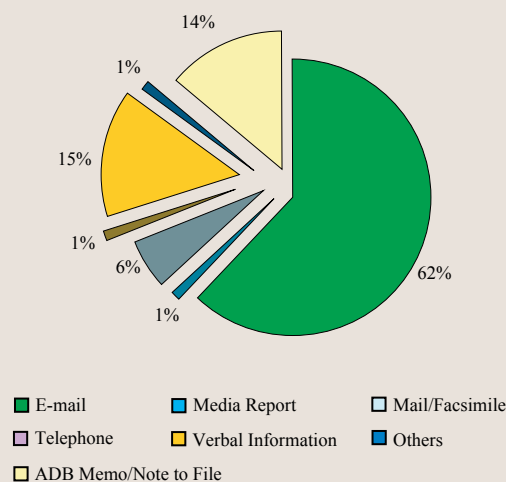
The majority of complainants contacted OAGI by e-mail. This mode accounts for 62% of the total complaints received in 2008. While OAGI accepts anonymous complaints, they are often difficult to pursue. OAGI strongly encourages individuals who wish to make anonymous complaints to establish a web-based e-mail account (for example, Yahoo!, Gmail, or MSN Hotmail) and submit their complaints using this account so that OAGI can establish a dialogue with the complainant. The number

Figure 1: Sources of Complaints



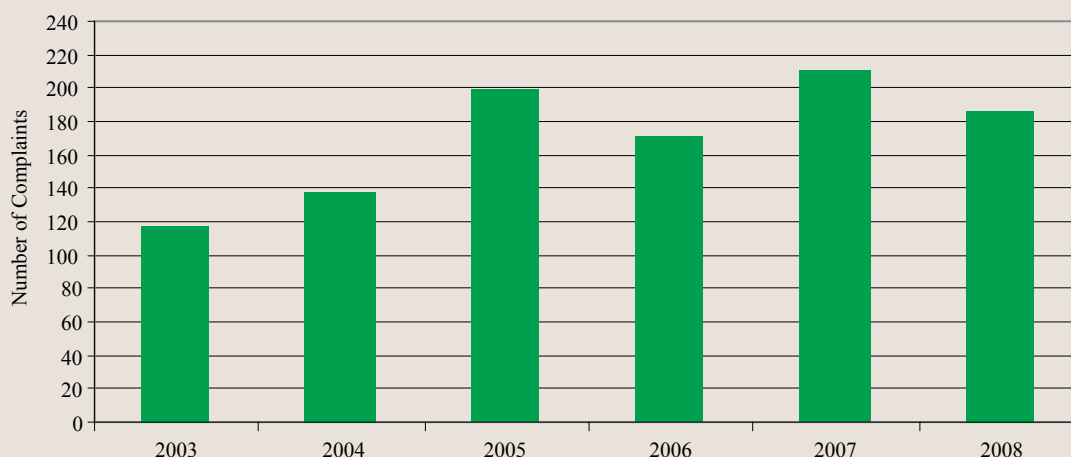
Source: OAGI database.

Figure 2: Mode of Complaints Received



Source: OAGI database.

**Figure 3: Complaints Received, 2003–2008**



Source: OAGI database.

of complaints received in 2008 is consistent with the average number of complaints received over the previous 5 years. Figure 3 illustrates the number of complaints received annually since 2003.

### Screening

OAGI has established a centralized screening process to scrutinize new complaints pertaining to ADB-financed activities and/or its staff. OAGI acknowledges the receipt of the complaint in writing to the complainant. OAGI then commences its assessment by gathering and reviewing preliminary documents relating to the allegation. The complaint is screened, based on four criteria:

- ◆ whether it is within OAGI’s jurisdiction,
- ◆ whether it is credible,
- ◆ whether it is verifiable, and
- ◆ whether it is material, before deciding if the allegation is to be
  - closed (because of insufficient evidence or for lack of substance),
  - referred to other departments or offices, or
  - converted into an investigation.

The centralized case intake process enables OAGI to develop a better understanding of fraud and corruption issues arising in its developing member countries (DMCs) and projects. It enables OAGI to allocate investigators and resources appropriately to where they are most urgently required. For instance, dedicated investigators are now concentrating on specific countries and thematic sectors. This not only makes economic sense, but also enables investigators to develop their expertise and understanding of national business and government practices. Furthermore, OAGI is able to maintain consistency in the application of its assessment criteria. It also enables OAGI to be more proactive by identifying potential problem areas, which is consistent with OAGI’s intelligence-driven approach to investigation.

At the conclusion of the case screening or assessment process,<sup>9</sup> 35 cases were closed, and 89 new investigations were opened during 2008. As of 31 December 2008, 74 of these investigations were ongoing. Thirteen of the 89 investigations related to staff misconduct. The 35 cases were closed because of insufficient evidence either to support the allegation or to demonstrate that the anticorruption policy had been violated.

<sup>9</sup> The processes adopted by OAGI with respect to allegations received are contained in Appendix 5 (in which the subject of the complaint is a staff member) and Appendix 6 (in which the subject of the complaint relates to ADB-financed activity).

## Box 2: Case-Screening Criteria

Section 30 of the harmonized principles and guidelines for investigations, incorporated in *Integrity Principles and Guidelines*, provides that all complaints will be examined to determine whether there is a legitimate basis to warrant an investigation.

### Jurisdiction

Complaints are first assessed to determine whether they fall within the jurisdiction of the Office of the Auditor General, Integrity Division (OAGI), i.e., whether they relate directly to ADB-financed activities. If the complaint does not fall within jurisdiction, it is not assessed any further and the complainant is so informed. If the complaint is within OAGI's jurisdiction, it will be evaluated in accordance with the following criteria.

### Credibility

When assessing whether a complaint is credible, OAGI will consider such things as the reliability of the complainant, whether the complainant is contactable and can provide further information, and if there have been complaints of a similar nature in the project or sector. The assessment of a complaint's credit is a reactive process.

### Verifiability

Verifiability is an assessment of what information may readily be available to assist OAGI in proving or disproving the allegation. OAGI will consider, for example, whether documents exist or if there are witnesses to the alleged act of fraud or corruption. Here, OAGI will consider its investigative approach. The assessment of a complaint's verifiability is a predictive process.

### Materiality

This is effectively a triage assessment that enables OAGI to prioritize its investigations given its limited investigative resources. When the materiality of a complaint is assessed, OAGI considers the value of contracts; the impact of the allegation on the project; and the overall effect of the allegation, if substantiated, on ADB's mission. In sum, the assessment of materiality is a cost-benefit analysis—how OAGI can best use its resources for maximum effect.

Source: OAGI.

## Investigations

### Overview

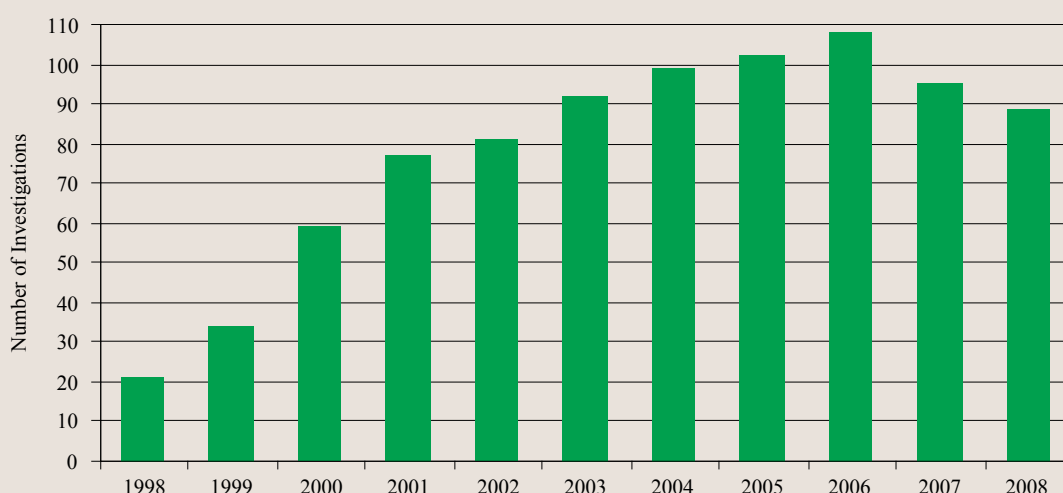
The thorough and effective investigation of fraud and corruption allegations is central for the success of ADB's fight to ensure that ADB-financed activities are free from corruption. An increased risk of detection, coupled with the imposition of sanctions, can provide an effective deterrent. During 2008, OAGI pursued a more team-based and focused approach to its investigations. Using existing data accumulated over the last 10 years, OAGI was better able to identify links between its current cases and other cases. Therefore, it was able to direct its investigations once armed with this knowledge,

allowing OAGI to maximize impact with limited staff resources.

Of the 186 complaints received during 2008, 89 were converted to investigations after being assessed as credible, verifiable, and material during the case-screening process (Figure 4). This is a small decrease of approximately 6% from the 95 investigations opened in 2007. Once the case-screening process has been completed, those new matters that meet the screening criteria are forwarded to team members with a preliminary findings report ready for investigation.

OAGI investigated matters ranging from a medical-benefit fraud case by a former staff member involving less than \$100 to alleged

**Figure 4: Investigations Opened, 1998–2008**



Source: OAGI database.

collusion in bidding for a road construction project worth more than \$10 million.

While statistics may indicate a small drop in the number of investigations, they do not represent a decrease in OAGI's investigative workload. Further, not all investigations are equal in size. In 2008, an increasing number of OAGI's investigations concerned complex matters.

During the year, OAGI pursued four major intelligence-driven investigation projects in thematic areas, which included more than 15 separate investigations. OAGI also responded to major allegations in three DMCs. A number of these investigations are ongoing.

Although OAGI's investigations are administrative in nature, they still demand a rigorous and critical application of investigative methodology. While the burden of proof in ADB cases may be on the balance of probabilities, OAGI consciously considers both inculpatory and exculpatory evidences in its endeavor to prove or disprove allegations.

Major investigations are a significant drain on resources. As OAGI reported last year, the complexity of cases and increased staff vacancies continued to translate into the

increased number of ongoing investigations as compared to 2007. This was exacerbated in 2008 by staff movements and vacancies throughout the year.

Eight investigative missions were fielded during 2008. Five were team missions that investigated a range of different allegations. As in previous years, OAGI continued to make extensive use of qualified, trusted firms to conduct investigations and research on its behalf. OAGI issued 35 work orders with a budget of approximately \$370,000 for such activities during 2008.

At the end of 2008, 74 investigations were ongoing, compared with 95 investigations at the end of 2007, 83 in 2006, 89 in 2005, and 81 in 2004. Throughout the year, OAGI averaged approximately 105 open investigations, an increase of 8% compared with an average of 97 in 2007. In contrast, an average of 94 investigations was open at any one point during 2006, 77 in 2005, and 73 in 2004 (Figure 5).

#### **Developments in Investigations Strategy**

It is the nature of OAGI's mandate that the reactive investigation of individual complaints of fraud and corruption will remain its core business. However,

as OAGI indicated in its 2007 annual report, OAGI has been and will continue to develop more proactive approaches in the detection of fraud and corruption in ADB-financed activities, in part, through more effective use of existing intelligence to drive investigation strategies and directions. As good intelligence is the foundation of any successful holistic fraud and corruption investigation and prevention program, this is, and

will continue to be, one of the cornerstones of the division's investigative strategy.

### Types of Investigation

In this publication, OAGI categorizes its investigations using harmonized definitions from international finance institutions' principles and guidelines for investigations, which OAGI adopted in its *Integrity Principles*

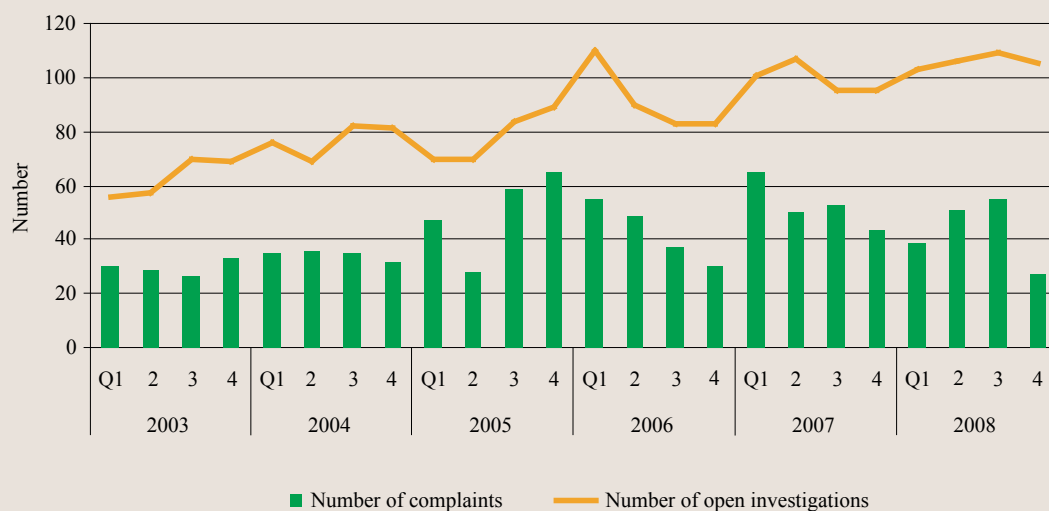
## Box 3: Misrepresentation of Work Experience

Not all investigations of the Office of the Auditor General, Integrity Division (OAGI) end in sanctions. Indeed, it is equally important to clear a party of fraud or corruption allegations when there is no cogent evidence to support the allegation. In one case, the bid evaluation committee on a large power sector project suspected that one of the bidders had misrepresented its work experience in a bid to construct a power transmission line. The bid evaluation committee believed that the entity of interest had wrongly claimed to have undertaken projects. Rival bidders also claimed to have undertaken the construction work.

OAGI's investigation found that the entity of interest was, in fact, the management contractor, and the rival bidders had undertaken the actual construction work under its supervision. Based on the definition of management contractor and the specific activities listed by the firm of interest in its proposal, there was no conflict between its claims and those of the other three bidders. Furthermore, the entity of interest disclosed this in its bid. Once the situation had been clarified, the bid evaluation committee was informed, and the case was closed.

Source: OAGI.

Figure 5: Open Investigations and Complaints Received by Quarter, 2003–2008



Source: OAGI database.



*and Guidelines*. These categories are fraudulent, corrupt, coercive, and collusive practices. Other matters investigated by OAGI outside of these four categories include sanction violations and conflicts of interest.

As many of the complaints that OAGI receives cover a range of such practices—particularly fraud and corruption collectively—it is often difficult to categorize them specifically. In the graph below (Figure 6), those investigations where multiple allegations are

made, and which cannot readily be separated, have been grouped together.

Fraud and corruption collectively represent 52% of all investigations conducted by OAGI in 2008.

Matters such as conflicts of interest, staff misconduct, or sanction violations that cannot be readily classified are grouped as *Others*. These matters represented approximately 24% of OAGI's investigations work by classification.

#### Box 4: Research Leads to Discovery of Sanction Violations

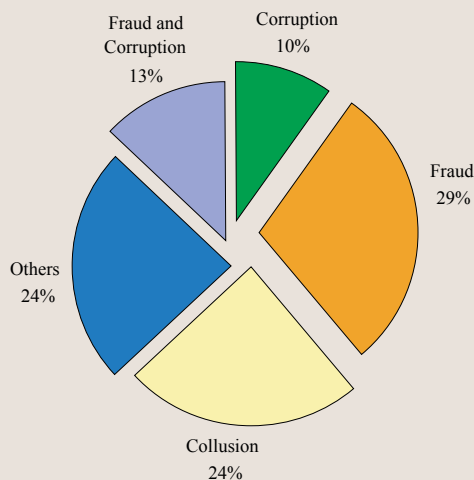
While assessing a complaint from an operational department—and through related research—the Office of the Auditor General, Integrity Division (OAGI) discovered that a previously sanctioned individual (for fraud) had attempted to win further contracts under a range of different names during the sanction period. A review of a series of road construction projects in the same geographic area indicated a number of similar cases. In addition, a number of red flags for collusive and fraudulent practices in contract bidding were noted.

In the first 2 months of the project, a further four possible sanction violations were identified. OAGI also identified 13 firms that are suspected of engaging in collusive practices. In addition, a desktop review of proposals on these road projects has located evidence of fraudulent practices in 13 contracts involving the same four firms.

The investigation is ongoing.

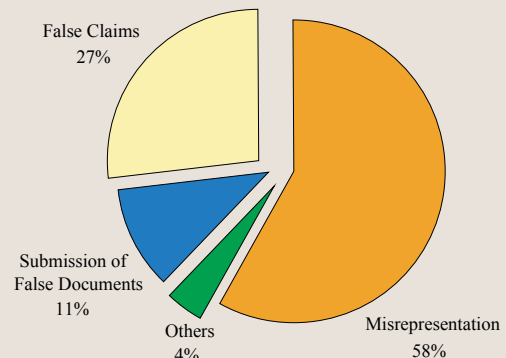
Source: OAGI.

Figure 6: Investigation Classification, 2008



Source: OAGI database.

Figure 7: Fraud Cases, 2008



Source: OAGI database.

Figure 7 provides a more detailed analysis of fraud cases. The figure illustrates that false claims, the use of false documents, and misrepresentation formed the bulk of the fraud complaints investigated. Most of these types of allegations related to bidding, tendering, and procurement for projects.

Closely linked to bidding, tendering, and procurement fraud are collusive practices, which represent a further 24%. This occurs when parties or individuals conspire to defraud projects or achieve some other improper purpose. The 21 collusion cases investigated during 2008 represent a marginal rise from the 19 cases investigated during 2007.

The alleged payment of bribes or extortion comprised most of OAGI's corruption investigations (Figure 8). Unfortunately, because of the inherently secretive nature of bribe paying and the difficulty in obtaining evidence (particularly as OAGI has limited powers to require cooperation and documents), it remains the most difficult and challenging area for OAGI to investigate.

No allegations of coercion were investigated during 2008.

### Sources of Investigations

In 2008, ADB staff members identified 55% of the allegations that were investigated by OAGI, while external complainants reported a

further 43% (Figure 9). The significant drop in investigations arising from audit reports—33 cases in 2007 to 2 cases in 2008—is because OAGI has yet to open any cases resulting from red flags in PPRAs during the year. This may result in higher number of complaints converted to investigations in 2009.

Figure 10 indicates the changing nature of the sources of complaints.

### Subjects of Investigation

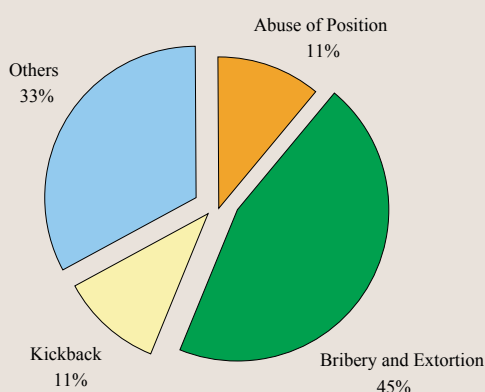
Seventy-four percent of the investigations opened during 2008 related to ADB-financed projects, a decrease from 85% in 2007.

The number of staff cases investigated by OAGI increased from 10 to 13—or from 11% to 18%—of OAGI's investigative workload. The remaining 8% of cases referred to such matters as sanction violations and conflicts of interest (Figure 11).

As the above statistics and comments on fraud and corruption suggest, most of OAGI's investigations into ADB-financed activities involved bidders, consultants, contractors, and suppliers who were alleged to have engaged in acts of fraud, collusion, or corruption. Fraud—i.e., acts of misrepresentation—formed the bulk of such matters.

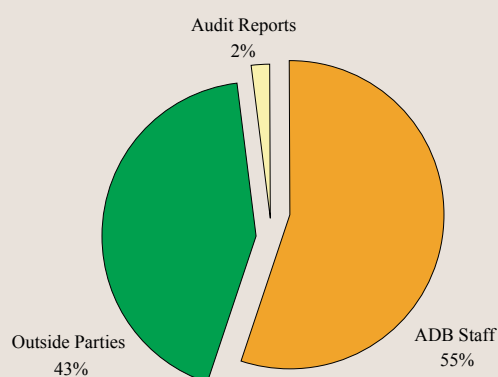
In staff cases, OAGI's mandate is generally to investigate matters associated with fraud or corruption, although other matters may be

**Figure 8: Corruption Cases, 2008**



Source: OAGI database.

**Figure 9: Sources of Investigations, 2008**



Source: OAGI database.

### Box 5: Ensuring Integrity in the Procurement Process

A firm complained to ADB about a delay in the implementation of its contract with the executing agency (EA). The Office of the Auditor General, Integrity Division (OAGI) referred the complaint to the project department, which immediately contacted the EA. ADB discovered that the EA then requested the firm to reduce its contract price on the recommendation of the supervising ministry.

The project department contacted the EA and emphasized that any price reduction made to the procurement package after the contract had been signed would result in ADB declaring a misprocurement regardless of the government's internal process prior to signing. Once misprocurement has been declared, loan proceeds may be canceled, and the government must finance the amount equivalent to the total cost of the misprocured package from its own funds. The EA agreed to revert to the original contract price.

The complainant subsequently informed ADB that the government asked for humanitarian aid in the form of computers. The value of the computers requested was equivalent to the reduced price in the original contract.

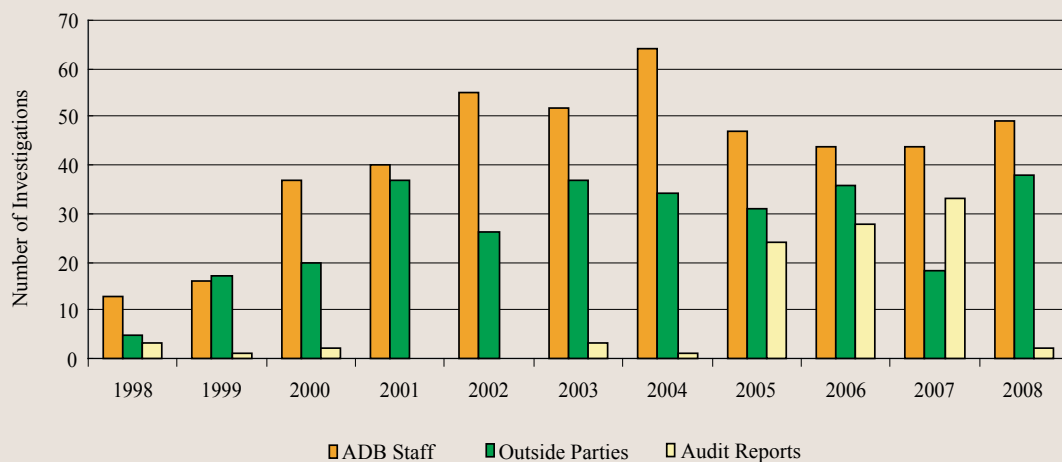
ADB advised the government that such practices were not acceptable. As the computers had already been delivered to the country, the government agreed to return them to the firm and pay the shipping costs. This, unfortunately, resulted in unwanted tariff implications for the firm.

ADB is continuing to monitor this issue.

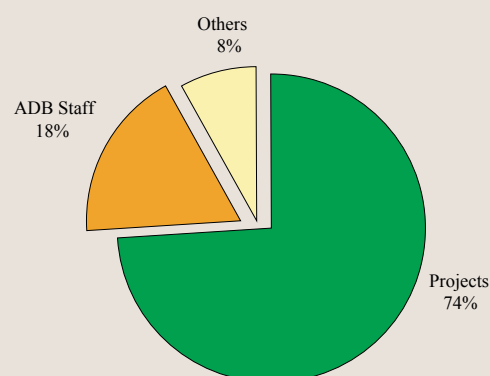
Overall, the positive outcome of this case has significant implications in other large procurement packages under the project. The EA has become more aware of ADB's procurement guidelines and understand that their internal processes will not apply in ADB-financed projects without ADB's prior approval. The project department will continue to monitor the procurement practices of the EA.

Source: OAGI.

Figure 10: Number of Investigations by Source, 1998–2008



Source: OAGI database.

**Figure 11: Subject of Investigations, 2008**

Source: OAGI database.

investigated at the request of the President or the director general of the Budget, Personnel and Management Systems Department (BPMSD). Most staff cases involved, for example, abuse of ADB's assets; equipment; or benefits such as housing or rental subsidies, dependency allowances, and medical insurance claims. OAGI also investigates conflicts of interest or other similar violations of ADB's staff code of conduct.<sup>10</sup>

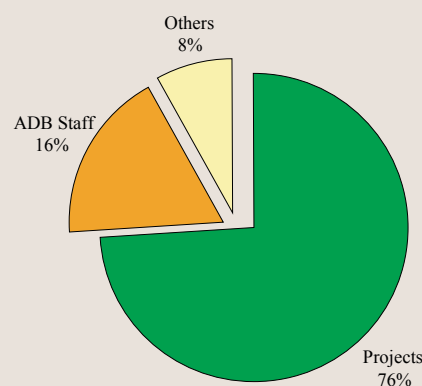
The percentages for 2008 are consistent with the average for the previous 10 years (Figure 12).

### Investigation by Sector

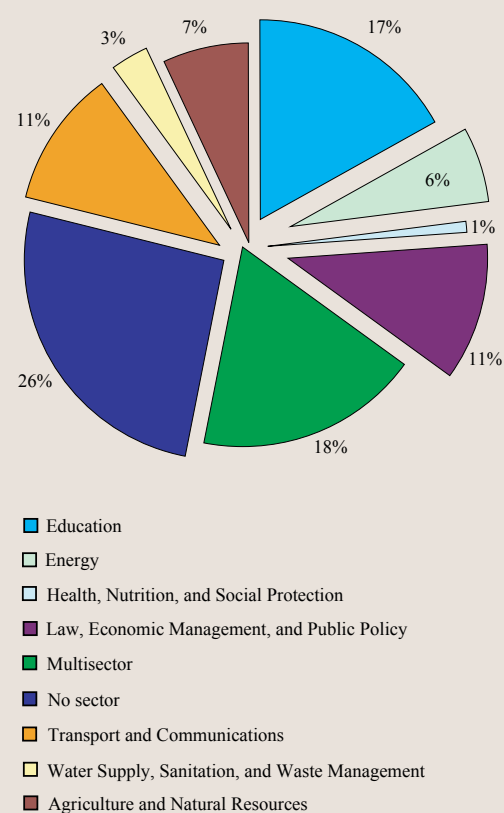
In 2008, OAGI conducted investigations across the complete range of ADB-financed activities. Eighteen nonsector investigations—mainly staff cases—made up the greatest proportion of investigations by thematic area at 26% (see Figure 13). Transport and multisector projects, 10 investigations in each area, were the two largest sectors of interest to OAGI during the year.

Multisector investigations cover a range of projects. For example, a single investigation into a large grant may examine related issues in sanitation and health subprojects in the same region. An analysis of this information assists OAGI in better targeting both its PPRA and investigations.

<sup>10</sup> ADB. 2006. *Code of Conduct*. Manila.

**Figure 12: Subject of Investigations, 1998–2008**

Source: OAGI database.

**Figure 13: Investigations by Sector, 2008**

Source: OAGI database.

### Box 6: Staff of Executing Agency and Resident Mission in Conflict of Interest

The Office of the Auditor General, Integrity Division (OAGI) received a series of complaints about fraud, corruption, and collusion in an executing agency (EA). The complainant also identified a conflict of interest, claiming that a senior officer in the EA was married to a staff member at ADB's resident mission.

OAGI assessed the complaint and found documentary evidence of fraud in a local shopping procurement to outfit the office for the project secretariat. It also noted the existence of prima facie evidence in relation to the conflict of interest allegation. OAGI retained an investigative firm to look into the allegations.

The investigation confirmed fraudulent practice in the office fit-out. It was established that the winning firm had fabricated the two competing bids. The Integrity Oversight Committee sanctioned the firm concerned for 7 years. The two individuals who were responsible for the fabrication of the bid were sanctioned indefinitely.

The investigation also explored the conflict of interest allegation and found that the individuals concerned had been separated for a number of years. While the other allegations were also found to be unsubstantiated, other evidence of impropriety was noted and brought to the attention of the government.

Source: OAGI.

### Box 7: Implementation Challenges in a Decentralized Project

An education sector project was implemented in a decentralized manner. The intention was for the beneficiaries to take ownership of, and thus the responsibility for, the project's outcome. However, as there were over 5,000 contracts in subprojects that were spread all over the country, the government's capacity to implement the project properly was severely taxed, as was ADB's ability to supervise the project adequately.

Because of their lack of experience, a number of the subproject management units were found to have engaged the services of unscrupulous third parties to conduct the entire procurement process. This resulted in fraudulent practices to influence the outcome of the bidding, ranging from fake newspaper advertisements announcing the bidding to limit participation, to technical specifications written to the advantage of favored firms. In many instances, the technical submissions of bidders contained identical typographical/grammatical errors. On closer examination, the owner's technical specifications also included descriptions/trademarks readily attributable to specific brands/models of equipment.

Where the participation of bidders from other eligible member countries was desired, the Office of the Auditor General, Integrity Division (OAGI) found that those invited were totally inappropriate, either because their product lines did not match the requirement or, as manufacturers, they did not take part in bidding for mixed lots of equipment (i.e., including others that they do not make). Collusive practice among participants, the bidders, and their suppliers was uncovered. The firms, in some cases of different nationalities, were found to have owners in common and/or were close business associates. A total of 50 complaints were registered, with 46 converted into investigations. To date, eight cases have resulted in sanctions, with more expected out of the 12 that are still open.

OAGI also established that a substantial portion of the total number of cases exhibiting the same red flags was largely driven by owner preference. For some, they had existing equipment of the same brand and were looking to supplement what they already had. For others, it was the result of their research, based on a brand's established reputation. Still for others, all they had were the brochures provided by local distributors/dealers, which had become aware of the project and were making the rounds doing product presentations. Consequently, the competition was about right-pricing what was effectively a shopping list. OAGI and the ADB unit concerned agreed that in such cases, project management intervention, rather than punitive action, was more appropriate.

Source: OAGI.

The summary status of reported allegations of fraud and corruption in ADB-financed activities that concluded in sanctions/reprimands is presented in Appendix 2.

## Referrals

In 2008, OAGI referred five cases to BPMSD for disciplinary action (Table 2) and reported the findings of three additional cases to BPMSD. BPMSD is the department responsible for imposing disciplinary procedures on staff for any behavior that violates the code of conduct. This includes all behavior that comes under the categories of fraud and corruption, or behavior that involves abuse of ADB resources, coercion, conflict of interest, and other misconduct.

A summary of cases involving ADB staff members is in Appendix 3.

## Sanctions

Table 3 summarizes the sanctions imposed by the Integrity Oversight Committee (IOC) in 2008. The IOC is the sole authority to determine if the anticorruption policy has been violated in relation to an ADB-financed activity and to impose sanctions/reprimands accordingly. During 2008, the IOC

- ◆ met 10 times and discussed 24 cases,
- ◆ sanctioned 41 firms and 38 individuals,

- ◆ reinstated 13 firms and 7 individuals, and
- ◆ extended the sanctions of 4 firms that violated an ADB sanction.

The sanction process is administrative in nature.

Table 4 provides a history of IOC sanctions activity since 1998, when ADB adopted its anticorruption policy.

In 2008, OAGI issued warnings to two sanctioned firms and a sanctioned consultant for attempts to circumvent ADB's sanctions.

The two firms, which were fulfilling existing obligations in ADB projects, entertained the possibility of a variation order and did not disclose to the executing agency that they were sanctioned by ADB. The consultant joined an ADB-funded consultation forum, although sanctioned indefinitely from participating in any ADB-financed activity.

To improve ADB's ability to identify currently sanctioned firms and individuals, OAGI is in the process of improving the search functionality on ADB's intranet, which contains an updated anticorruption sanctions list. In addition, to avoid sanctioned firms and individuals from attempting to participate in ADB-financed activities during the sanction period, OAGI is encouraging staff members to check the sanctions list regularly. OAGI also advised operational departments of the need to

**Table 2: Staff Cases Referred to the Budget, Personnel and Management Systems Department**

Nature of Misconduct	Number of Staff Members	Case Resolution	Location
Medical insurance fraud	1	Resignation	Country Office
Unauthorized outside employment compounded by making false statements to OAGI	1	Demotion and suspension without pay for 2 weeks	Headquarters
Abuse of ADB ICT resources and breach of ICT security rules	1	Demotion and suspension without pay for 1 month	Country Office
Abuse of leave benefits	1	Pending	Headquarters
Leakage of ADB information to external parties	1	Pending	Country Office

ICT = information and communication technology; OAGI = Office of the Auditor General, Integrity Division.

Source: OAGI.

**Table 3: Entities Sanctioned by the Integrity Oversight Committee in 2008**

	1–7 years	10 years	Indefinitely	Total
Firms	40	1	0	41
Individuals	9	0	29	38

Source: OAGI.

**Table 4: Sanctions (since 1998)**

As of 31 December 2008	Firms	Individuals
Total declared ineligible to participate in ADB-financed activities	284	265
Reinstated upon appeal	2	2
Reinstated upon expiry of minimum sanction period	59	30
Currently ineligible to participate in ADB-financed activities	223	233
Reprimanded	20	11

Source: OAGI.

### Box 8: The Integrity Oversight Committee

The Integrity Oversight Committee (IOC) determines if bidders, consultants, contractors, suppliers, or other external parties involved in ADB-financed activities violated ADB's anticorruption policy or procedures. If the IOC, based on investigative findings of the Office of the Auditor General, Integrity Division (OAGI), is satisfied that breaches of the anticorruption policy have occurred, it has the mandate to impose sanctions.

The IOC consists of three regular voting members and three alternate members who fill any vacancies that may occur because of absences or conflicts of interest.

Members are nominated by the auditor general and approved by the President. The principal director of the Central Operations Services Office or his or her designated representative and an assistant general counsel advise the IOC. The IOC's decisions are by majority vote.

OAGI serves as the secretariat to the IOC.

Source: OAGI.

inform executing agencies of specific sanctioned entities as appropriate.

OAGI also issued warnings to two other firms. One firm did not pay its consultants on time, while the other submitted a resumé for one of its consultants that contained discrepancies.

Under ADB's *Integrity Principles and Guidelines*, any further attempt to accept a

variation order that is beyond the scope of the original contract or to participate in an ADB-financed activity, such as involvement in ADB projects or participation in ADB conferences and workshops while ineligible, is not allowed. It will result in sanction extension and the posting of the company or consultant's name on ADB's website. In 2008, three firms violated their sanctions.



### Box 9: Improved Business Governance because of ADB Sanction

Sanctioned firms or individuals can be reinstated after a debarment period. However, reinstatement is not automatic.

Sanctioned firms or individuals should write the Office of the Auditor General, Integrity Division (OAGI), refer to the reason for the sanction, and provide a basis for which ADB should consider their reinstatement.

OAGI assesses the credibility of any request for reinstatement and the merits of reinstating a party based on several factors, such as restitution, changes in management or ownership, and verifiable mechanisms to improve business governance.

Examples of how reinstated firms improved their business governance include

- ◆ revised quality oversight procedures concerning joint venture partner and subcontractor submission;
- ◆ revised internal controls and procedures relating to the completion and submission of curricula vitae;
- ◆ giving staff additional training on ethics and the corporate compliance program, and extra support from their management team; and
- ◆ abiding by the terms of ADB's sanction.

Source: OAGI.

### Box 10: Sanction Violation

On 4 September 2008, Central Operations Services Office staff members contacted the Office of the Auditor General, Integrity Division (OAGI) to advise that, while reviewing the short lists for the recruitment of consultants for a project, they found that a sanctioned firm was included as an associate in proposals from two international firms.

Given the potential impact of the allegation on the short-listing process, on the same day, OAGI wrote to the proprietor of the sanctioned firm, who had been sanctioned less than 12 months before, to seek an explanation for his and his firm's actions. OAGI also contacted the two international firms. It was quickly established that the two international firms had no knowledge of the sanctions imposed upon their local associate. Also, with the full cooperation of the two international firms, OAGI was able to establish the circumstances surrounding the sanctions violation.

On 13 October 2008, the Integrity Oversight Committee (IOC) considered OAGI's investigation report and its findings. The IOC determined that the local firm had violated the existing sanctions. The IOC extended the sanction against the firm to 10 years, while the proprietor was again sanctioned indefinitely. On this occasion, however, the names of both the firm and the proprietor have been posted on ADB website.

Source: OAGI.

### Appeals

ADB has a formal appeals mechanism that allows individuals and entities that have been the subject of an IOC sanction to request that the Sanction Appeals Committee (SAC) review the decision. The SAC is composed of three ADB vice presidents. The SAC has the mandate to reduce or

to lift sanctions, as well as to require that the IOC reconsider a case.

Like OAGI's investigations, the appeals process is administrative in nature. The secretariat reviews all appeals to ensure that only those that meet ADB's strict appeals criteria are heard by the SAC. Appeals will only be

## Box 11: Appeal Resulting in Modification of a Sanction

A large, multinational corporation that supplies specialized machinery for the energy sector was sanctioned after the Integrity Oversight Committee (IOC) determined that one of its agents, in a developing member country, had paid a bribe to a government official to influence the tendering process for a large project. The IOC determined that the corporation should not participate in any ADB-financed activity for a period of 2 years. When it imposed the sanction, the IOC also sanctioned a range of the corporation's subsidiary companies to prevent the sanction from being circumvented.

The corporation appealed the sanction and provided new information that indicated that a number of the subsidiary companies, which had also been sanctioned, were not involved in supplying the specialized equipment to projects. This information was not available to the Office of the Auditor General, Integrity Division at the conclusion of its investigation. The Sanction Appeals Committee considered this new information and determined that sanctions against three subsidiary companies not involved in the sale of the equipment should be lifted.

Source: OAGI.

referred to the SAC if the appellant provides new information that may have affected the IOC's decision and could not have been reasonably known when OAGI finalized its investigations. An individual or entity that has been the subject of a sanction has 90 days to appeal that decision. The appeal must be in writing and state, clearly and concisely, the reason(s) for the requested review of the IOC's decision.

During 2008, the secretariat received appeals from three individuals and five entities. The total of eight appeals received for 2008 is a 60% decrease over those received during the previous 12 months. All the individuals were either directors or proprietors of entities that had been sanctioned. None of the appeals received during 2008 met the criteria for providing new information that would justify a referral to SAC.

The secretariat also finalized three appeals from one individual and three entities that had been received late in 2007. Of these, only one entity met the appeals criteria and was referred to the SAC. This resulted in an amendment to the sanction.

### Project Procurement–Related Audits and Other Activities

#### Project Procurement–Related Audits

OAGI conducts PPRA's to identify fraud and corruption indicators proactively in ADB-

financed projects. The objectives of a PPRA are to

- ♦ identify whether the procurement of project goods, works, and services complied with ADB's procurement guidelines<sup>11</sup> and covenants in the applicable loan or project agreement;
- ♦ determine whether project contracts were implemented according to the terms;
- ♦ ensure that ADB funds were used for their intended purposes; and
- ♦ recommend improvements to internal controls to mitigate opportunities for fraud, corruption, or abuse in ADB-financed projects.

PPRA's are conducted in line with ADB's efforts to manage for development results. PPRA's identify internal controls that should be in place or strengthened to mitigate or eliminate instances of fraud and corruption or abuse of resources. Effectively applied internal controls give assurance that project funds are directed toward intended uses for intended beneficiaries. PPRA's thus contribute to ensuring that ADB-financed projects are managed to produce development results.

PPRA's encompass a wide audit scope that includes the review of a project's procurement process, financial management system, contract price analysis, potential conflicts of interest, and

<sup>11</sup> ADB. 2007. *Procurement Guidelines*. Manila.

## Poor Execution of Two ADB Projects Resulted in Suboptimal Results



Misaligned window of a health center covered with frost



Poor quality of new road

assets. An expert is hired as part of the audit team when this requires specific technical expertise; for example, a qualified quantity surveyor is hired to inspect physical infrastructure assets such as roads, transmission lines, and dams.

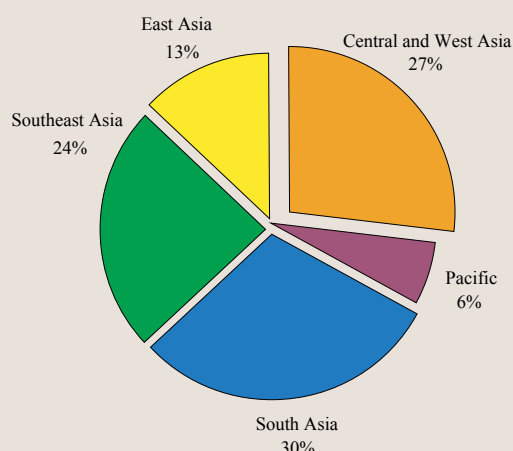
Projects for 2008 PPRAs were selected from the total active/ongoing loans (excluding program loans) as of 25 June 2007. As of that

date, there were 504 active/ongoing loans, totaling \$36 billion. Total contracts awarded and disbursements amounted to \$18 billion and \$14 billion, respectively.

Figure 14 presents the total number of active loans per ADB's regional departments.

Figure 15 illustrates the sector classification of ongoing loans.

**Figure 14: Total Ongoing Loans per Regional Department**

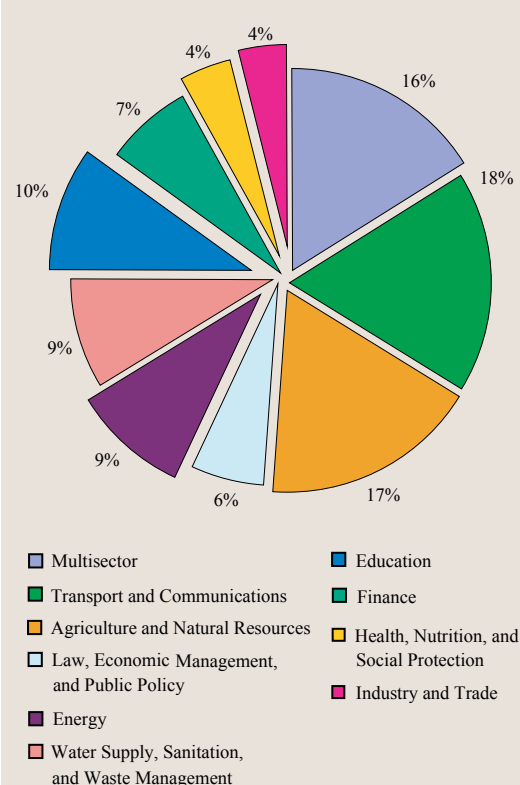


Source: ADB Loan Financial Information Systems.

Projects were selected for PPRAs based on the following criteria:

- ◆ projects for which the supreme audit institution (SAI) of the borrower DMC accepted the invitation to participate in the PPRA;
- ◆ projects for DMCs in which a PPRA has never been done;
- ◆ project loans of more than \$20 million, with sufficient contracts awarded;
- ◆ projects for a region and a sector preferably not covered by other PPRAs within the same year;
- ◆ projects that are not relatively close to completion or a similar project is in the pipeline;
- ◆ projects with contracts that have not been fully awarded and loans not fully disbursed, so that the projects may still benefit from PPRA findings and recommendations; and
- ◆ projects for which a PPRA has been suggested by ADB's relevant department head and/or senior staff.

**Figure 15: Sector Classification of Ongoing Loans**



Source: ADB Loan Financial Information Systems.

Given available resources, only six of the 504 loans were targeted for PPRAs, a number consistent with previous years. Therefore, along with the completion of one PPRA conducted in 2007, OAGI planned to finish seven PPRAs in 2008. However, for reasons that were beyond OAGI's control, two were deferred to 2009. The remaining five PPRAs completed comprised one multisector project (Afghanistan), two projects in the agriculture and natural resources sector (Indonesia and the Kyrgyz Republic), one health project (Mongolia), and one education project (Viet Nam). A summary of the projects is provided in Table 5.

**Table 5: Project Procurement–Related Audit Projects**

Loan Number and Project Name	Description
1997-AFG(SF): Emergency Infrastructure and Rehabilitation and Reconstruction Project	This project was designed to rehabilitate and reconstruct key infrastructure in Afghanistan, which was destroyed or damaged because of two decades of war. It aims to rehabilitate and reconstruct the primary national road network in the north, power transmission lines in northern provinces, power distribution system in Kabul, damaged gas production, transmission and distribution facilities, and irrigation infrastructure and implementation capacity thereof.
1909-INO(SF): Poor Farmers' Income Improvement through Innovation Project	This project's overall objective is to benefit farmers of more than 1,000 villages in five districts of Indonesia: Temanggung and Blora in Central Java, East Lombok in West Nusa Tenggara, Ende in East Nusa Tenggara, and Donggala in Central Sulawesi. This includes empowering poor farmers through the provision of village investment funds for village-level projects, development of national and local agriculture information resources, support for agriculture innovation, development and dissemination, and the provision of overall project management support. It directly addresses focal points of ADB's country operational strategy for Indonesia, which include creating and strengthening basic institutions and improving regional equity (by targeting rural areas and less-developed islands).
1726-KGZ(SF): Agriculture Area Development Project	The project's long-term development goal is to increase the incomes of farmers in Chui Oblast, while its immediate objective is to increase farm productivity and profitability in selected areas. The project was designed to benefit an estimated 8,000 households fully and another 2,600 to a lesser extent. It supports the government with its policy and institutional reform program in agriculture and rural finance with a priority on poverty reduction.
1998-MON(SF): Second Health Sector Development Project	The project's overall goal is to improve the health of the poor and vulnerable, including women and children, in targeted rural areas of Bayanhongor, Dornod, Hentii, Uvurhangai, and Zavhan <i>aimags</i> (provinces). It aims to improve the quality and utilization of health services in rural areas and build the institutional capacity of the health sector based on the reform achievements and institutional developments of the First Health Sector Development Program in sector efficiency, effectiveness, and sustainability. As Mongolia was one of the first developing member countries for which ADB formulated a results-based country strategy and program, the project was designed as a core poverty intervention focusing on human development and gender development, which addresses the focal points of ADB's country strategy and program.
1979-VIE(SF): Upper Secondary Education Development Project	The project's overall objective is to help reduce poverty through development and improvement of upper secondary education. It is intended to improve quality, efficiency, access and equity, and management capacity in upper secondary education by strengthening quality support systems countrywide and targeting some of Viet Nam's most economically and educationally disadvantaged provinces. The project directly addresses focal points of ADB's country strategy and program for Viet Nam, which include continuing to help the government achieve universal education and gender parity in secondary education via the sector development approach.

AFG = Afghanistan, IND = Indonesia, KGZ = Kyrgyz Republic, MON = Mongolia, VIE = Viet Nam.

Source: OAGI.



## Audit Coverage

Approximately 4,138<sup>12</sup> contracts were awarded across the five projects as of their respective cut-off audit dates.<sup>13</sup> Contract values ranged from below \$1,000 up to \$36 million for infrastructure subprojects.

Two projects were implemented using decentralized government structures to encourage community ownership of project deliverables. As a result, more than 3,700 relatively low-value contracts—totaling \$23.8 million—were project implementation features. For these, given resource and geographical constraints, the PPRAAs achieved relatively low audit coverage for both number and value of contracts.<sup>14</sup> However, certain trends were noted that represent useful data for improving project management of these—and future—projects that are implemented through decentralized government structures.

In contrast, 361 high-value contracts awarded across the five projects had an accumulated contract value of \$179 million, representing 88.3% of the accumulated contract value of all approximately 4,000 contracts. The PPRAAs reviewed 254 (70% of 361) of these high-value contracts, which had an accumulated contract value of \$168.7 million (94% of \$179.0 million).

In total, 429 contracts valued at \$171.5 million were included in the audit sample for review by the respective PPRA audit teams.

## Audit Scope Limitations

The 2008 PPRAAs encountered limitations in scope, affecting up to 59 contracts with an accumulated value of \$116.4 million. The most recurrent limitation was the unavailability of documentation or other evidence for audit review; another was the lack of comparative data against which to assess the reasonableness of pricing of certain contracts. In these situations, the audit team was unable to judge the projects' compliance with relevant guidelines or the

reasonableness of contract values. Figure 16 depicts value of sampled contracts affected by audit scope limitation.

Unavailable bid documentation makes independent assessment of the procurement process impossible. It may be simply because of a project unit's poor filing procedures; however, it may also be an attempt to circumvent an independent assessment and conceal irregularities that compromised the competitiveness of the bid process or were fraudulent and corrupt.

It is crucial that project units maintain reliable and efficient filing practices to enable independent assessments to be carried out. This will go a long way to reassure project stakeholders of the integrity and transparency of the procurement process.

## Audit Findings

Audit findings were identified from 202 contracts across the five projects, with an accumulated value of \$144.9 million. This represents a significant proportion of the audit sample, as represented in Figure 17.

## Red Flags

There were indications that fraud and corruption may have had an adverse impact on bid competitiveness and/or financial management of 120 contracts, which had an accumulated total of \$109.2 million. These included indications of collusion, submission of falsified documents, misrepresentation of facts and figures, conflict of interest situations, and potential overpricing. These were observed in both high- and low-value contracts.

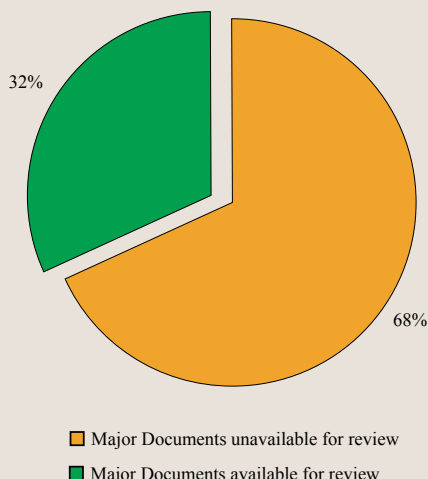
These red flags are only indications of fraud and corruption at this stage. OAGI will need to prioritize screening and investigations in line with available resources, and seek project staff cooperation at all levels to investigate these in accordance with ADB's *Integrity Principles and Guidelines*.

<sup>12</sup> The exact figure was not computed as there were thousands of low-value contracts. Instead, the figure was estimated by the Audit Team in consultation with project officers.

<sup>13</sup> Depending on the timing of the PPRA, one project may be audited according to the list of contracts awarded as of 31 December 2007; for another, 31 May 2008 was the more appropriate date.

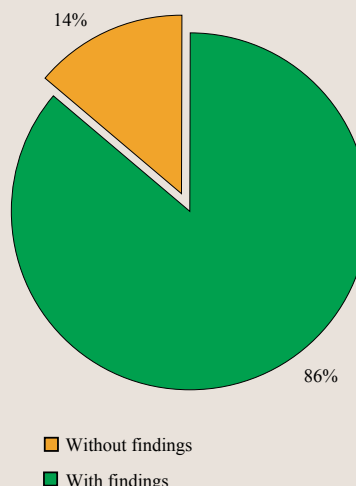
<sup>14</sup> The audit team reviewed 175 low-value contracts with a total value of \$2.82 million, representing 5% of the total number—and 12 % of the value—of all low-value contracts.

**Figure 16: Audit Scope Limitation Profile by Value of Sampled Contracts**



Source: OAGI project procurement-related audit data.

**Figure 17: Audit Findings Profile by Value of Sampled Contracts**



Source: OAGI project procurement-related audit data.

## Procurement

The PPRAs also evaluated each project's processes and procedures against those required by ADB's procurement guidelines, guidelines on the use of consultants,<sup>15</sup> and procurement-related covenants contained in the loan agreements.

There were 103 contracts affected by poor compliance with procurement-related guidelines and covenants, including those in which required pre-qualification procedures, bid opening meeting procedures, bid security requirements, invitations to bid, advertisements, and bid evaluations and approvals were either incompletely, improperly, or not at all implemented. Once the winning bidder was selected, there were instances in which ADB's no-objection confirmation was not obtained before the contract was awarded and a notice of the contract awarded was not published.

There were also instances in which ADB was not informed of contracts awarded after a competitive bid process. These contracts were inappropriately paid through the imprest account and included high-value contracts.

The quality of bid evaluation varied. At times, bids from unqualified bidders were accepted and evaluated rather than rejected. In a few instances, contracts were awarded to contractors that were not financially capable. This was present at all levels of project implementation, including executing agencies, project management units, project implementation units, and provincial project units. Although a lack of current capacity at the provincial and village/town levels may exist, noncompliance was also featured in high-value contracts. At times, noncompliance occurred more often at the start of the project and decreased thereafter, indicating that the project did benefit from experience.

ADB's procurement guidelines, along with loan covenants, encourage competitiveness in the procurement process when possible. As such, it would be desirable for the projects to comply fully, as this maximizes effective use of loan funds and enhances the quality of project deliverables.

<sup>15</sup> ADB. 2007. *Guidelines on the Use of Consultants by ADB and Its Borrowers*. Manila.



### Financial Management Internal Controls

The PPRAs noted that financial management capacity has improved in provincial project units, but remains weak. Basic control over liquid financial assets—such as regular bank reconciliations, financial project progress assessments, and adequate substantiation of spending—was frequently absent. Project implementation experience, implementation of audit recommendations, and overall increased capacity are expected to improve this area over time.

In contrast, recurrent findings relating to project financial management internal controls for 63 of the 254 high-value contracts include

- ♦ inadequate or absent performance security guarantees, intended to provide financial safeguards against nondelivery of contract terms;
- ♦ nonimposition of penalties for contract completion delays, representing a lost opportunity to compensate the project for delays caused by the contractor;
- ♦ significant differences in the project financial records of the project implementation unit and ADB, resulting in a conflicting project financial picture;
- ♦ exceeded ceilings for statement of expenditure payments and imprest accounts, breaching loan covenants and heightening the risk of ineligible payments;
- ♦ payments made on contracts without appropriately authorized interim contract certificates, breaching agreed contract terms and heightening the risk of ineligible payments;
- ♦ payment delays to contractors, risking contract performance;
- ♦ inappropriate reporting of a borrower's contribution to a project, resulting in an incomplete picture of funds/resources expended for the project;
- ♦ no separate accounting for the ADB-financed portion of project funds from other cofinanced portions, resulting in inability to provide a clear financial picture of each financier's contribution;

- ♦ misclassification of disbursements in accounting records, resulting in inaccurate reports;
- ♦ unauthorized reimbursements made to contractors, heightening the risk of ineligible, unsubstantiated payments; and
- ♦ confusion as to whether a project can claim local taxes from ADB, compromising the accuracy of the project's financial situation.

Clearly applied internal controls are crucial to ensuring accuracy of financial data, preventing errors, deterring opportunity for misappropriation of funds, and protecting project funds and assets. Projects have been strongly encouraged to enhance these internal controls, especially in relation to high-value contracts.

### Asset Verification

Asset verification was conducted across 112 contracts, for goods such as computer equipment; agricultural machinery; civil works (buildings); and major construction works including power installations, irrigation works, and roads.

Adverse findings in relation to assets include the following.

- ♦ Civil works showed signs of early deterioration, indicating substandard construction quality and substandard materials.
- ♦ Significant delays were experienced for civil works.
- ♦ Inadequate project supervision was evident.
- ♦ Deviation from agreed specifications without documented and/or justifiable reasons occurred.
- ♦ Project equipment was purchased but not utilized.
- ♦ Significant changes in scope were implemented without first obtaining required ADB approval.

In general, control over project assets must be strengthened. Asset registers should be maintained—recording the utilization and



Before rehabilitation



After rehabilitation

assigned owner of the asset—to ensure that these are utilized for intended purposes and to enable project asset monitoring. Nonetheless, based on the audit team’s observations, in general, assets were utilized according to project objectives.

#### Key Recommendations from PPRAs

Recommendations were made to reduce incidences of noncompliance. These were directed to the executing agencies and project units at all applicable levels. Recommendations were also addressed to ADB’s resident missions

and/or operational departments in situations where their past actions could have enhanced compliance or where their focused support and operational knowledge could have assisted a project in complying with relevant guidelines and covenants.

A brief summary of key recommendations follows.

- ◆ Strict compliance with ADB guidelines and loan covenants should be ensured.
- ◆ Key procurement staff and bid evaluation committee members should continue to build capacity.
- ◆ ADB's operations departments and project management officers should increase their collaboration to improve compliance and overall project management capacity.
- ◆ Documentation filing, relating to procurement, awarded contracts, and variations to awarded contracts, should be improved.
- ◆ Progress reports should be prepared regularly and as required by project management.
- ◆ Funds should be dispersed according to prescribed procedures specific to a project.
- ◆ Bank reconciliations should be performed regularly.
- ◆ Periodic reporting of financial progress should be required at the village/town level.
- ◆ Documentation should be improved, i.e., proper documentation should be kept for intended utilization of goods procured and purchased, and banking decisions and actions should be properly justified, documented, and authorized.
- ◆ A rationale should be provided for assets procured that are of different specifications to those previously approved.
- ◆ Materials used and goods purchased should be of agreed standard and quality to prevent premature deterioration of goods and buildings.
- ◆ Assets should be properly utilized by targeted users for project purposes.

- ◆ Assets should be repaired and maintained.
- ◆ An asset register should be prepared and maintained for project goods.

OAGI acknowledged the challenges inherent in project implementation to deliver services to the poor and vulnerable in targeted areas. Despite audit findings, there were positive indications in every project that the outputs delivered appeared to be satisfactory to the beneficiaries.

## Recommendations

OAGI proposed recommendations to management, operational departments, executing agencies, and other entities based on the outcome of its investigative findings. These recommendations are intended to

- ◆ strengthen internal and external control mechanisms, procurement and financial management practices, and project implementation arrangements to prevent fraud and corruption in ADB-financed activities;
- ◆ ensure that there are no conflicts of interest compromising duties and responsibilities to be carried out; and
- ◆ increase transparency and overall effectiveness of ADB's operations.

## Empowerment through Communications

While much of OAGI's work is, by nature, investigative, OAGI is firmly committed to a holistic approach to fighting fraud and corruption in ADB-financed activities. Fraud prevention is a key component of this approach. To pursue OAGI's fraud prevention mandate, it informs people how they can contribute, even in a small way, to prevent and detect fraud and corruption.

OAGI's communication and education strategy was developed and expanded during 2008 to include a range of exciting initiatives.

**Table 6: Recommendations**

To	Country	Recommendations
Management	Headquarters	Clarify the definition of income, e.g., whether ADB income or worldwide income, is used in AO 3.03, Dependency Status and Dependency Allowance.
		Implement guidelines for AO 3.03 to require staff to declare their eligibility to receive the dependency allowance each year, and require staff and/or their spouses to agree to provide full financial disclosure should they be required to do so. Such requirements will strengthen BPMSD's ability to enforce the requirements of AO 3.03.
		Revise AO 3.03 to stipulate that failure of staff and/or their spouses and other dependents to cooperate fully with any preliminary inquiry or investigation constitutes misconduct subject to disciplinary action.
Operational Departments		Amend AO 2.03, section 5.4 to more clearly cover situations where candidates for lateral transfers are under filling positions.
	Headquarters	Revise process for sharing consultants' evaluation ratings so user departments are advised on confidentiality restrictions.
	Headquarters	Advise a contractor not to terminate its employee automatically once his/her services are no longer required for ADB work, but instead to retain him/her for deployment to other clients. However, this employee should turn over any ADB propriety information in his/her possession, terminate e-mail accounts, and be issued warnings on the anticorruption policy.
	Headquarters	Advise contractors to give adequate instructions to their employees regarding AO 4.05, Information and Communication Technology Principles.
	Field Office	Consider canceling the financing of \$5,000 related to a contract for office renovation that was fraudulently awarded.
	Field Office	Cancel the portion of a loan, which was lost because of corruption.
Executing Agencies	Country C	Change a contractor's employee or consider alternative contractor.
		Terminate the contractor even if personnel are removed from any involvement with the office's contract staffing.
		Implement four measures to reduce future fraud risk in the country office's procurement processes.
	Country D	Withhold unidentified expenses when processing claims from the imprest account financed by the ADB loan.
	Country E	Terminate the contract between the executing agency and the firm for violating ADB's anticorruption policy.
		Strengthen executing agency's internal procedures and controls to prevent corruption.
	Country F	Recover ADB's funds if account for the project is still open.
	Country G	Disclose the nature of the expenses amounting to \$13,136 even though the executing agency is no longer claiming this money from ADB's imprest funds.

ADB = Asian Development Bank; AO = Administrative Order; BPMSD = Budget, Personnel and Management Systems Department.

Source: OAGI.

### Box 12: Improving Business Governance of Service Providers

A complainant, who had been employed by a service provider to ADB, informed the Office of the Auditor General, Integrity Division (OAGI) that he did not receive any retirement benefits when he resigned from the company. The service provider is required under the Republic Act No. 7641 to provide retirement benefits for its employees and claimed from ADB "retirement benefits" as a specific cost for each employee designated to ADB.

Under the provisions of the Republic Act, a company is required to pay retirement benefits to an employee who reaches the age of 60, provided such employee has been with the company for a minimum period of 5 years. However, it remains silent on employees that resign prior to the statutory retirement age.

OAGI, in coordination with the relevant ADB department, met with company representatives a number of times and determined that the monies claimed from ADB as "retirement benefits" are being invested in a legitimate retirement fund. Should an employee voluntarily leave the company prior to attaining the age of 60, such employee is paid the equivalent of 50% of the retirement benefit collected on their behalf from ADB as "severance pay." This policy, while following the general letter of the law, caused confusion among the employees who appeared not to understand the difference between "severance pay" and "retirement benefit." It was agreed that this issue could be resolved if the difference was clearly stated in writing and included in future company employment contracts.

The company revised its retirement and severance policies, revised its employment contracts, and explained these revisions to its employees designated to ADB, both verbally and in writing. Copies of the revised policies and contracts have been provided to OAGI.

OAGI has recommended that the contract between ADB and the service provider be revised to include a provision that ensures that all monies claimed from ADB as retirement benefits are invested or utilized solely for the benefit of the employees of the company that are designated to ADB.

Source: OAGI.

### Box 13: Proactive Staff Intervention Prevents Repeat Recruitment of Compromised Project Director

In 2004, an ADB staff consultant participated in an inquiry into a current procurement for consulting services that was suspected of having been compromised. This inquiry was conducted jointly with government representatives. It was found that the project's deputy director had compromised the procurement for consulting services. As a result of this finding, the government removed the deputy director from the project.

Three years later, this deputy director reappeared in another ADB project as the project coordinator. ADB was informed of this staffing choice by the government during the inception mission, but project staff members were unaware of this person's past involvement in procurement fraud.

In 2008, the consultant who participated in the 2004 inquiry, now an ADB staff member, alerted OAGI to the return of this individual to an ADB-financed activity. OAGI informed the government agency about the project coordinator and requested that the government remove this individual from the ADB project, which subsequently occurred.

Source: OAGI.



## ADB Website



### ADB Today

OAGI continued to issue advisories to staff and consultants at ADB headquarters via *ADB Today*, an internal news bulletin, on a regular basis. These advisories include reporting allegations of fraud and corruption, checking the sanctions list before approving any contracts, updating the sanctions list, calling staff to maintain integrity at all times, and warning of new scams. As a result, ADB staff and consultants reported more than half of the allegations received in 2008.

### E-Bulletin

In 2008, OAGI launched the *Anticorruption and Integrity* e-bulletin, a quarterly e-publication that promotes OAGI's work and gives readers an opportunity to learn about confidentiality, conflict of interest, and how to report allegations of fraud and corruption. It also features anticorruption advisories, important events, and OAGI publications.

The e-bulletin is sent out to registered subscribers and is accessible via [www.adb.org/Documents/Periodicals/Integrity/Default.asp](http://www.adb.org/Documents/Periodicals/Integrity/Default.asp).

### Website

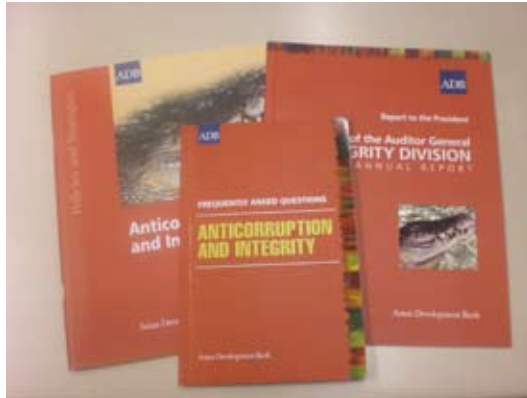
OAGI's external website ([www.adb.org/integrity](http://www.adb.org/integrity)) remained in the top 30 most-frequently visited sites on ADB website. It is prominently accessible on ADB homepage and is updated regularly by posting OAGI's advisories on scams and sanctions violations, publications on anticorruption, the e-bulletin, and sanctions information.

Several external complainants contacted OAGI about suspicion of collusion, abuse of ADB project funds, and irregularities in the procurement process after having accessed OAGI's website.

OAGI's intranet for authorized staff members provides an updated list of sanctioned firms and individuals. The link to this page is notably accessible on ADB portal and encourages staff to report allegations of corruption.

## Publications

The 2007 OAGI Annual Report<sup>16</sup> was posted on ADB website in February 2008. It was downloaded 16,779 times in 2008. Printed copies of the report were disseminated to ADB's operational departments and country offices and to other ADB partners in the field of good governance and corruption prevention.



In 2008, OAGI published a brochure entitled, *Frequently Asked Questions about Anticorruption and Integrity* for ADB staff members. This publication presents answers to ADB's anticorruption policy simply. It also offers guidance on how to exercise judgment in matters of personal integrity and provides examples to illustrate how ADB's rules can be applied.



In 2009, OAGI will consider the need for frequently asked questions on the anticorruption policy for consultants and executing agencies.

To reach a wider audience and encourage better understanding of the anticorruption policy and *Integrity Principles and Guidelines*, these documents were translated into Lao. The translations to Russian and Khmer remain ongoing.

## Learning and Development

OAGI continued to emphasize empowering project officers both from ADB and partner countries in the area of anticorruption. Apart from required presentations to incoming ADB staff members on their vital contribution to ADB's anticorruption fight, OAGI is continually looking for ways to constructively equip those involved in ADB-financed activities in this area.

In 2008, more intentional partnerships between OAGI and operational departments as well as DMC governments were witnessed. In August, OAGI presented a workshop to South Asia Department staff—at their request—on fraud and corruption awareness. In March and May, packaged with field visits that were primarily linked with the PPRA conducted in the country, OAGI conducted a combination of seminars and workshops with the Kyrgyz Republic Resident Mission and the government, respectively.<sup>17</sup> Seminars on anticorruption were also conducted in Papua New Guinea during October.<sup>18</sup> In July, at the Central Operations Services Office's request, OAGI presented ADB's anticorruption policy to government officials who were attending a regional seminar.

In February and March, presentations were conducted for business delegations from the International Federation of Consulting Engineers, Norway and Sweden, and the NGO Forum. A fraud and awareness corruption workshop was presented to ADB's Board of Directors in October to orient incoming directors and remind incumbent directors of ADB's stance and their responsibilities in this regard.

<sup>16</sup> ADB. 2007. *2007 OAGI Annual Report*. Manila. Available: [www.adb.org/Documents/Reports/Anticorruption/2007/Challenges.asp](http://www.adb.org/Documents/Reports/Anticorruption/2007/Challenges.asp)

<sup>17</sup> ADB. 2006. *Regional Technical Assistance for Regional Seminars on Anticorruption, 2006–2007*. Manila (RETA-6311), and ADB. 2008. *Regional Technical Assistance for Enhancing Collaboration with Supreme Audit Institutions through Project Procurement–Related Audits*. Manila (RETA-6449).

<sup>18</sup> ADB. 2008. *Regional Technical Assistance for Seminars on Anticorruption, 2008–2009*. Manila (RETA-6447).

### Box 14: Alerting Regional Departments to Potential Integrity Lapses Strengthens Project Implementation

In April 2008, the Office of the Auditor General, Integrity Division (OAGI) began providing regional departments with a list of open complaints and investigations relating to ADB projects, excluding those involving ADB staff members. This list identifies specific projects in which OAGI is assessing or investigating allegations of fraud and corruption.

Regional departments are requested to scrutinize the implementation of the projects on the list, especially if there are requests for contract variations that involve additional project scope and contract amounts, consultant replacements, or extension of completion dates.

Source: OAGI.

There was active collaboration with international bodies in the area of investigations. In particular, ADB's exposure to Siemens, accused of bribery and charged in United States federal court in December 2008, led to consultations with the North American Representative Office and the World Bank. More general collaborations were held in September with the International Fund for Agricultural Development, United Nations Office of Internal Oversight Services, and World Food Programme. Such collaborations forged relationships, fostered cooperation, and strengthened the anticorruption drive.

OAGI also views continual training of its own staff as vital in the anticorruption fight. OAGI staff members took part in three integrity forums this year, which were attended by anticorruption arms of multilateral development banks. OAGI representatives participated in four international conferences, in the areas of economic crime and anticorruption,<sup>19</sup> demonstrating ADB's commitment to fighting corruption, raising ADB's international profile, and serving as platforms for OAGI to keep

abreast of developments in investigative and forensic techniques.

The internal challenge is to align OAGI's activities with those of other departments—particularly the Regional and Sustainable Development Department (RSDD)—in the areas of governance and anticorruption. To this end, RSDD and OAGI jointly led the focus within ADB to celebrate Anticorruption Day, and OAGI intends to continue to work closely with RSDD and other departments going forward.

#### Small-Scale Technical Assistance in the Kyrgyz Republic

Part of OAGI's mandate is to strengthen SAIs to help advance transparency and public accountability in DMCs.<sup>20</sup> With OAGI's expertise and experience in conducting PPRAs, OAGI formulated a small-scale technical assistance (TA) activity to capitalize on opportunities to work in partnership with SAIs and increase awareness of ADB's efforts to combat fraud and corruption in DMCs through PPRAs.

Through the small-scale TA activity, OAGI transferred fraud detection and prevention skills

<sup>19</sup> 9<sup>th</sup> Conference of International Investigators, 2nd Session of the Conference of the States Parties to the United Nations Convention against Corruption, 26<sup>th</sup> Cambridge International Symposium on Economic Crime, ADB–OECD Anti-Corruption Initiative for Asia and the Pacific.

<sup>20</sup> ADB. *Anticorruption Policy*, para. 67.

<sup>21</sup> The first day of the workshop was funded under ADB. 2006. *Regional Seminars on Anticorruption, 2006–2007*. Manila (RETA-6311).

<sup>22</sup> The second day of the workshop was funded under ADB. 2008. *Enhancing Collaboration with Supreme Audit Institutions through Project Procurement–Related Audits*. Manila (RETA-6449).



to SAIs through on-the-job training during the 5-week fieldwork of the PPRAs. Upon completion of each PPRA, OAGI planned to augment and share knowledge with SAIs during a workshop. The small-scale TA workshops covered the areas of governance, anticorruption, finance management, and procurement issues. This small-scale TA activity also added to the momentum of increasing DMCs' awareness of and compliance with ADB's anticorruption policy gained over the last few years.

OAGI held a 2-day fraud and corruption awareness workshop in May 2008. Over 50 participants including key project staff members, government officials, and auditors from the Accounts Chamber of the Kyrgyz Republic—the SAI—attended the first day of the workshop.<sup>21</sup> The SAI and resident mission participated on the second day of the workshop, which focused on technical aspects of how to detect fraud and corruption, and included a PPRA debriefing. The workshop also provided a platform for the SAI and government officials to exchange information about their anticorruption efforts.<sup>22</sup>

### Anticorruption Seminars

In March 2008, ADB approved regional TA for anticorruption seminars for 2008 and 2009 (see footnote 16), aiming to reduce the risk of fraud and corruption in selected ADB-financed projects by

- ◆ increasing the understanding of and compliance with ADB's anticorruption policy, and
- ◆ raising awareness of typical project irregularities that may occur.

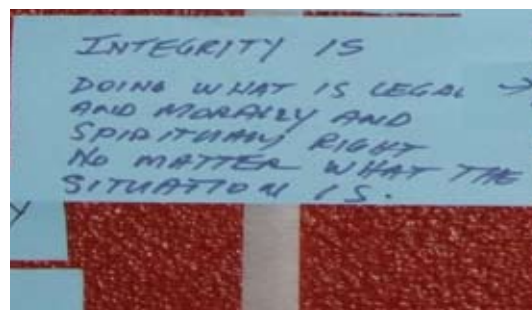
The beneficiaries of this regional TA include representatives of executing and implementing agencies; project management and implementation units; project management consultants; members of steering and evaluation committees; and other stakeholders responsible for or involved in project administration,

procurement, audit, and anticorruption efforts in DMCs. With information gleaned from the regional TA, participants will be able to better enhance project administration, better understand ADB's anticorruption policy, and better identify and address potential fraud and corruption.

OAGI launched this regional TA in Papua New Guinea in October 2008. The first project covered by the regional TA was Lae Port Development Project financed by two loans.<sup>23</sup> This project was selected because of the size of the loans and the complexity of the undertaking.

Two 2-day participatory workshops were held in Lae (20–21 October) and Port Moresby (23–24 October). These workshops used ADB's anticorruption policy as a framework for interactive discussions with stakeholders in and around the project.

Participants in the workshop represented different stakeholders, including project staff, local and national governments, civil society, communities, and the private sector. They worked in teams to develop a shared vision for the project as a model for effective, integrity-based development.



These workshops developed simple action plans, and elicited personal commitments from participants, to bring the vision of an effective, integrity-based project to reality. Participants shared their views on the meaning of integrity and effectiveness, and discussed potential positive and negative impacts of eventual project outcomes.

<sup>23</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors on Proposed Loans to Papua New Guinea for the Lae Port Development Project*. Manila (loans 2398-PNG and 2399-PNG).

# Challenges

## Workload and Resources

Balancing staff and other resources against the breadth and scope of work within the Office of the Auditor General, Integrity Division's (OAGI) mandate continues to be a demanding exercise. There is a direct relationship between the number of cases OAGI is able to screen, investigate, and close, and the resources available to it. The complexity of a case also impacts the number of cases that OAGI is able to review. Reduced resources<sup>24</sup> and complex cases translate directly into either fewer cases screened, investigated, and closed or delayed progress<sup>25</sup> on cases under review. Other aspects of OAGI's mandate are similarly impacted.

OAGI will also be expected to provide more extensive support to the implementation of the long-term strategic framework 2008–2020 (*Strategy 2020*).

## Information Technology, Data Management, and Analysis

OAGI's data management system is now 7 years old and has antiquated and limited search and data manipulation capabilities. In 2008, OAGI was provided a new server, and the data management system was upgraded to a limited extent. However, the manufacturer of the system is no longer developing the software. While OAGI expended resources to search for a suitable replacement data management system, there is currently no available software that meets OAGI's needs. Comparator institutions have either built their own systems or have

procured systems that are not within OAGI's budget.

Consequently, OAGI operates within these constraints, and considerable staff resources still need to be expended to input and extract data manually, as well as to conduct any meaningful analysis. In addition, OAGI staff members do not yet benefit from more sophisticated intelligence analysis software that is the market standard for investigators. This will be partially rectified in 2009 with the limited introduction of new intelligence analysis software. Nevertheless, both intelligence analysis and data management will continue to be major challenges for OAGI.

## Supporting *Strategy 2020*

In 2009, more intentional focus will be given to ensure that OAGI supports *Strategy 2020* to the extent that resources permit. Under *Strategy 2020*, it is intended that ADB will redirect its focus onto the region's three critical strategic agendas:

- ♦ inclusive economic growth,
- ♦ environmentally sustainable growth, and
- ♦ regional integration. To support this agenda, ADB will promote private sector development, good governance, gender equity, knowledge solutions, and partnerships.

OAGI has increasingly assisted in the process of integrity due diligence by investigating “red flags” and advising the Private Sector Operations Department on associated integrity

<sup>24</sup> OAGI began the year with 15 staff members. On 31 December 2008, there were 12 incumbent staff members, the reduction of three staff members being the result of staff movements during the year. OAGI expects one additional professional staff member and one national officer by January 2009. To complement its staff members' efforts, OAGI retained two consultants during the year and intends to hire a third in 2009.

<sup>25</sup> In 2008, OAGI had two 2005 and nine 2006 cases still open.

risk issues. Red flags are facts or circumstances that indicate possible fraud and corruption and warrant further investigation. In 2008, OAGI also provided advice and assistance on integrity due diligence and will continue this level of support. However, OAGI does not have the resources to conduct risk assessments for Private Sector Operations Department and nonsovereign transactions, which would support private sector operations and development.

To support infrastructure as a core focus of ADB's operations, OAGI will increase scrutiny on allegations of fraud and corruption in ADB's infrastructure development projects. OAGI has identified and is able to procure specialized laboratory services and technical skills to uncover fraud and corruption through the use or provision of substandard or noncompliant materials or equipment in such projects.

## Independence and Administration

In its 2006 and 2007 annual reports, OAGI emphasized that maintaining its independence is essential to its ability to discharge its responsibilities effectively. OAGI is currently housed within the Office of the Auditor General to provide the greatest possible and fully

effective independence from ADB's operations. While combining the auditing and investigative functions under the Office of the Auditor General has operated well enough to date, consideration should be given to observing recommended best practices for multilateral development banks. In the report, *Independent Panel Review of the World Bank Group Department of Institutional Integrity*,<sup>26</sup> Paul Volcker noted and upheld the acceptability of the "standard model" as practiced by international institutions. The so-called "standard model" is for the integrity function to be a freestanding unit, with a direct reporting line to the President and a concurrent reporting line to the Audit Committee of the Board.

As noted in previous annual reports, this issue will need to be considered by ADB in light of best practices and the ever-increasing external demands to strengthen ADB's audit and integrity functions. Additionally, although the demands at ADB have been increasing rapidly over the last few years, resourcing of both its auditing and investigative functions remained modest. One possible way forward would be for ADB's auditing and investigative functions to be gradually upgraded in anticipation of a separation of the two functions in the medium term.

<sup>26</sup> Volcker, Paul, chair. 2007. *Independent Panel Review of The World Bank Group Department of Institutional Integrity*. Washington, DC: World Bank.

# Whistle-Blower Protection

As a major work product for 2009, the Office of the Auditor General, Integrity Division (OAGI) will continue consolidating and updating ADB's whistle-blower provisions. ADB fully acknowledges that having safeguards and protections in place for those who come forward to report integrity violations are fundamental. Whistle-blower protections are considered critical for encouraging reports of corruption and have become a standard public accountability mechanism in both developed and developing countries.

While ADB already provides considerable protection against retaliation for those who present information about anticorruption violations, these protections were located in a number of documents and were not generally known to ADB staff or to the general public. In 2008, OAGI began the work of consolidating and updating the protections already afforded to reflect best practices among comparator institutions. On 2 October 2008, the President of ADB approved the Office of the Auditor General's proposal to prepare consolidated and updated whistle-blower protection provisions in a stand-alone format. ADB's Audit Committee of the Board and some Board members also encouraged this initiative, as presented in the *Annual Report of the Audit Committee of the Board 2007–2008*.

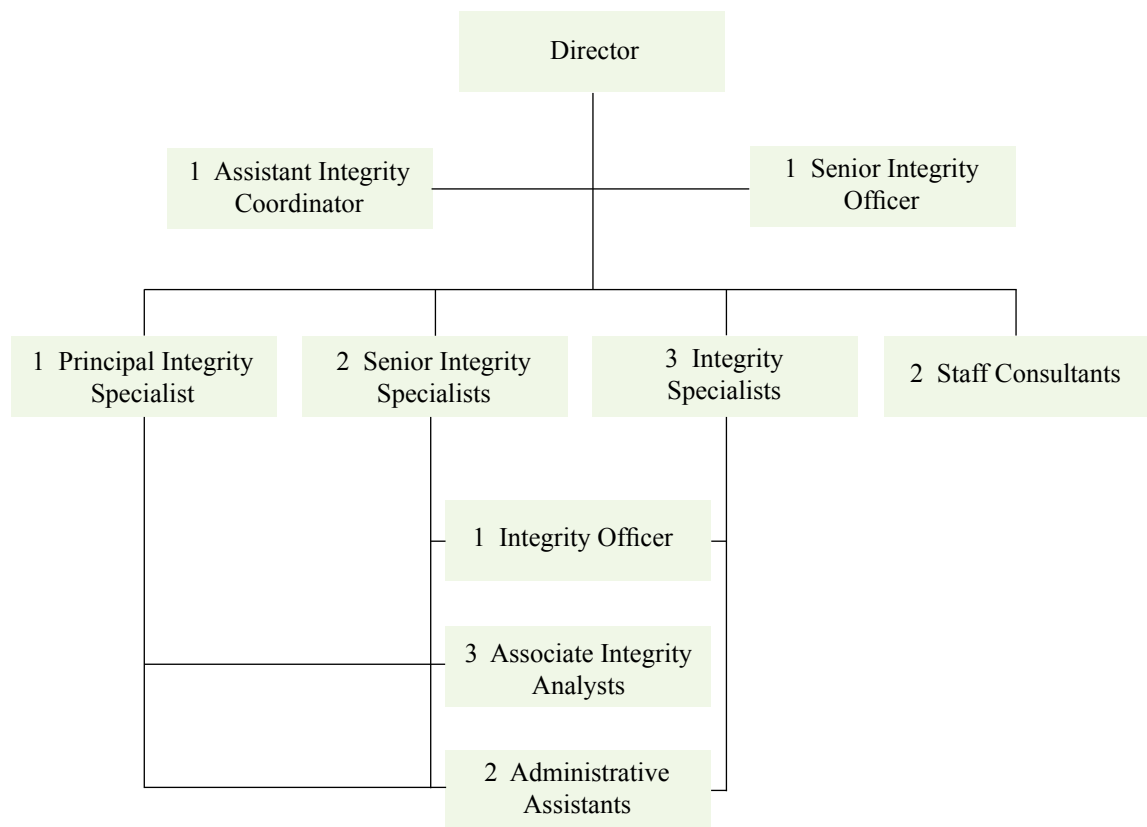
A criticism of ADB's approach had been that the organization's institutional focus on accountability was not counterbalanced with a credible whistle-blower program to protect the rights of individuals who come forward. Among recommendations made to ADB to improve its framework were

- ◆ clarifying burdens of proof,
- ◆ protecting whistle-blowers who disclose information regarding fraud or corruption to outside parties,
- ◆ providing a credible and independent review mechanism to handle allegations of wrongdoing, and
- ◆ providing antireprisal rights for witnesses and parties in the accountability mechanism to redress outside community and citizen grievances from ADB-financed projects.

The Office of the Auditor General circulated draft provisions for internal comment in November 2008. After internal comments have been taken into consideration, OAGI intends to post a revised draft document on the internet to solicit external feedback.

# Appendix 1

## Organizational Chart of the Office of the Auditor General, Integrity Division\* (as of 31 December 2008)



\* One integrity specialist position and two associate integrity analyst positions remained vacant as of date.

Source: OAGI.

# Appendix 2

## Fraud and Corruption Investigations, 2008

Table A2.1: Status of Reported Fraud and Corruption Investigations as of 31 December 2008							
Year Received/Status		Total	Loan	Technical Assistance	ADB Staff Members	Others	Grant
1998 and 1999		55	32	6	10	7	0
2000		59	35	5	14	5	0
2001		77	58	6	7	6	0
2002		81	54	10	12	5	0
2003		92	53	17	11	11	0
2004		99	52	16	25	6	0
2005	Open	2	2	0	0	0	0
	Closed	100	66	6	15	13	0
<b>Total</b>		<b>102</b>					
2006	Open	9	8	0	1	0	0
	Closed	99	66	14	16	0	3
<b>Total</b>		<b>108</b>					
2007	Open	43	34	2	1	4	2
	Closed	52	37	4	9	1	1
<b>Total</b>		<b>95</b>					
2008	Open	74	52	5	8	5	4
	Closed	15	5	2	5	3	0
<b>Total</b>		<b>89</b>					
<b>Cumulative</b>	Open	128	96	7	10	9	6
	Closed	729	458	86	124	57	4
	<b>Total</b>	<b>857</b>	<b>554</b>	<b>93</b>	<b>134</b>	<b>66</b>	<b>10</b>

ADB = Asian Development Bank.

Source: OAGI database.

**Table A2.2: Investigations Closed as of 31 December 2008<sup>a</sup>**

<b>Year Received</b>	<b>Total Investigations Closed</b>	<b>Closed After Investigation</b>	<b>Closed After Appeal</b>	<b>Closed without Sanction</b>	<b>Closed with Sanction</b>	<b>Referred to BPMSD</b>
1998	21	12	–	–	5	4
1999	34	22	–	2	7	3
2000	59	37	–	4	8	10
2001	77	58	1	3	12	3
2002	81	56	–	3	18	4
2003	92	69	–	3	18	2
2004	99	52	2	6	21	18
2005	100	69	1	–	22	8
2006	99	59	2	2	27	9
2007	52	36	–	–	9	7
2008	15	9	–	–	2	4
<b>Total</b>	<b>729</b>	<b>479</b>	<b>6</b>	<b>23</b>	<b>149</b>	<b>72</b>

BPMSD = Budget, Personnel and Management Systems Department, – = no investigation.

<sup>a</sup> This chart presents statistics on the total number of investigations closed each year, as well as the different stages at which investigations were closed.

Source: OAGI database.

# Appendix 3

## Significant Cases Involving ADB-Financed Activities Concluded in 2008

Allegations	Investigative Findings	Case Resolution
<b>FRAUD</b>		
<b>Submission of False Documents</b>		
A firm provided false information about its qualifications in a proposal for procurement of equipment and vehicle.	♦ OAGI concluded that the firm engaged in a fraudulent practice when it falsely claimed to have sold 10 units of front-end loaders to another firm.	♦ The IOC sanctioned the firm and its three associate firms for 7 years, the business manager for 7 years, the full-time director for 7 years, and two majority shareowners for 5 years.
A firm submitted a product brochure falsely claiming that the equipment included components produced by a particular supplier (a pre-bid requirement).	♦ The firm engaged in fraud when it submitted the falsified product brochure.	♦ The IOC sanctioned the firm and its director for 5 years each.
A winning firm submitted quotations from bogus companies for an ADB contract.	♦ The firm was awarded the contract worth almost \$10,000. ♦ OAGI found that the winning firm, through two of its officers, had engaged in fraudulent and collusive practice by fabricating the rival bids.	♦ The IOC sanctioned the firm for 7 years and the two officers indefinitely.
A firm submitted a forged bid security document during a combined tender in subprojects financed by an ADB loan.	♦ The firm submitted the document as part of joint venture tender. ♦ OAGI discovered that the firm had also submitted another forged bid security document in a separate subproject under the same loan. The contract amount was about \$0.5 million. ♦ The firm's management explained that they were not aware that the bid securities were forgeries. However, OAGI submitted to the IOC that the explanation was implausible based on ADB's information regarding their requirements for the issuance of bid securities.	♦ The IOC sanctioned the firm for 7 years and the director responsible for the firm's submissions indefinitely.

Continued on next page



Allegations	Investigative Findings	Case Resolution
A firm submitted falsified information in its bid.	<ul style="list-style-type: none"> <li>◆ Firm provided (i) forged financial statements to meet the bidding requirement of sufficient working capital and net worth, and (ii) a forged diploma certificate to meet required professional qualifications for its proposed project manager.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC debarred the company, as well as its parent entity and any and all subsidiaries, from participating in any ADB-financed activity for 7 years.</li> <li>◆ The IOC also debarred the officer responsible for the submission of the bid and the proposed project manager, as individuals, for 7 years.</li> </ul>
A number of firms were suspected of submitting forged performance securities as part of the requirements for the award of contracts in various civil works subprojects financed under an ADB loan.	<ul style="list-style-type: none"> <li>◆ In their defense, the firms of interest claimed that they were themselves victims of the fraud.</li> <li>◆ OAGI submitted to the IOC that the explanations were implausible because the performance securities, in the form of bank guarantees, were acquired by the firms under questionable circumstances and were submitted by the firms without verifying their authenticity.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC imposed sanctions against six firms for 7 years, and their respective responsible officers indefinitely.</li> </ul>
A winning bidder submitted false work experience.	<ul style="list-style-type: none"> <li>◆ OAGI found that the firm misrepresented the length of the tunnels it had previously constructed to prequalify to bid.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC sanctioned the firm for 7 years and the responsible manager indefinitely.</li> </ul>
A consulting firm submitted experts' curricula vitae containing inconsistent and falsified work experience in two proposals under two ADB-financed projects.	<ul style="list-style-type: none"> <li>◆ OAGI found that the firm committed fraudulent practices by overstating the contract values or the length of service of experts in projects listed in the curricula vitae.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC debarred the firm for 3 years, which is consistent with precedents involving similar circumstances.</li> <li>◆ Investigations into the concerned individuals are ongoing.</li> </ul>
<p>A company, which was awarded a contract to construct three schools under an ADB loan, had</p> <ul style="list-style-type: none"> <li>◆ abandoned the work site for more than 6 months,</li> <li>◆ could not be contacted by the EA since receiving a 15% advance on the total contract value on the 7 August 2007,</li> <li>◆ vacated their office premises and could no longer be found in the town, and</li> <li>◆ had submitted fake bank guarantees as part of the contract requirement.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI found out that the EA accepted the tender, awarded the contract, and applied for disbursement of the contract advance before the company furnished the required bank guarantees.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC imposed a 7-year sanction on the firm and an indefinite sanction on its proprietor, and posted their names on ADB website.</li> <li>◆ The IOC requested that OAGI discuss with the operational department the EA's departure from proper procurement procedures, raise the issues with the EA, and recover the contract advance of \$10,225 from the EA.</li> </ul>

*Continued on next page*

Allegations	Investigative Findings	Case Resolution
<b>FRAUD</b>		
<b>Misrepresentation</b>		
There was inappropriate conduct and potential fraud by a former project manager/consultant for an ADB-financed project.	<p>OAGI found that the former consultant committed misconduct and engaged in fraudulent practices when he</p> <ul style="list-style-type: none"> <li>♦ misrepresented information to obtain a salary increase,</li> <li>♦ misinformed the project staff to obtain higher allowances,</li> <li>♦ did not declare the conflict of interest with the owner—his wife—of an equipment rental firm used by the project, and</li> <li>♦ obtained numerous travel claim reimbursements with insufficient or no supporting documents.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC sanctioned the former consultant indefinitely.</li> <li>♦ The former consultant was asked to refund the claims with irregularities that have come to ADB's attention.</li> <li>♦ OAGI advised the implementing agency to strengthen its oversight of projects and put in place more effective control and supervisory measures.</li> </ul>
Three full-time local consultants proposed by a joint venture firm were not their employees. A team leader was among the three proposed.	<ul style="list-style-type: none"> <li>♦ OAGI limited its investigation to the team leader, as only team leaders—who are full-time employees of the bidding firm—are granted extra points during the technical evaluation of the proposals.</li> <li>♦ OAGI found that the local joint venture firm and its team leader committed fraud by certifying the team leader as its regular full-time employee when the team leader was, at best, a part-time staff member.</li> <li>♦ The international firm was limited in its ability to detect accuracy in employment details of experts proposed by the local joint venture firm, even if it reviewed the curricula vitae of proposed experts carefully.</li> <li>♦ The cost for consulting services was \$2.2 million.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC considered the consultant's full cooperation in expediting this case as a strong mitigating factor and debarred him for 1 year, but debarred the local joint venture firm for 3 years.</li> <li>♦ OAGI sent a warning letter cautioning the international firm to exercise more in-depth due diligence in future proposals to prevent recurrence of similar situation.</li> </ul>
A firm used ADB logo and a country director's signature in its advertisement for a publishing venture.	<ul style="list-style-type: none"> <li>♦ The advertisement was bogus and intended to solicit funds or business revenue fraudulently.</li> <li>♦ OAGI was able to identify the individual responsible for the creation and circulation of the advertisement.</li> <li>♦ OAGI thus concluded that both the proprietor and the firm had committed fraud.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC sanctioned the firm for 7 years. It also sanctioned the identified individual indefinitely.</li> </ul>

Continued on next page

Allegations	Investigative Findings	Case Resolution
A consulting company submitted claims for an expert's services and expenses, even though the expert never worked on the project.	<ul style="list-style-type: none"> <li>◆ OAGI investigated and confirmed that the expert had never been engaged by nor did any work for the consulting firm.</li> <li>◆ It also determined that the firm had tried to defeat the investigation by attempting to make a deal with the expert to cover up its actions and by making false statements to OAGI.</li> <li>◆ OAGI thus concluded that the consulting firm and its president had engaged in fraudulent and obstructive practices.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC sanctioned the consulting firm for 7 years and its president indefinitely.</li> </ul>
A full-time consultant/academic misrepresented his availability, as his presence at the project office had been intermittent.	<ul style="list-style-type: none"> <li>◆ OAGI found that the consultant committed fraud by knowingly misleading the EA and ADB into believing he would be available full-time.</li> <li>◆ OAGI also found that the consultant failed to adhere to the highest ethical standards when he assumed full-time responsibilities under the ADB project for several months while holding a full-time position in another agency.</li> <li>◆ Although the consultant resigned from the ADB project during OAGI's investigation, he recklessly misled project staff and took advantage of the ADB project by keeping both full-time jobs for several months. His action disrupted the ADB project and affected team members' morale.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC acknowledged the case but reserved the decision on sanction pending further investigation on the involvement of the local consulting firm who had proposed the consultant.</li> </ul>
<b>CORRUPTION</b>		
<b>Collusion</b>		
Findings from a PPRA revealed that the losing quotations for a contract in an ADB-financed project were unusually similar, while the bid price proposed by the winning vendor was almost exactly equal to the EA's cost estimate.	<ul style="list-style-type: none"> <li>◆ OAGI determined that the winning vendor had engaged in a fraudulent practice by fabricating at least one and possibly both of the losing quotations.</li> <li>◆ OAGI did not identify any impropriety in similarity between the EA's cost estimate with the bidder's.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC sanctioned the winning vendor for 7 years.</li> </ul>

*Continued on next page*

Allegations	Investigative Findings	Case Resolution
There was potential bid rigging in a tender for procurement of furniture.	<ul style="list-style-type: none"> <li>♦ OAGI found that the original scheduled bidding was set up to fail to justify a re-bid, which was then manipulated to favor the eventual winner.</li> <li>♦ The cooperation of the two losing bidders with the winning bidder made the manipulation possible.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC sanctioned the three firms for 7 years and their responsible directors indefinitely.</li> </ul>
An OAGF audit identified a range of red flags for procurement fraud in an ADB business unit. The shopping method of procurement had been used to obtain a range of goods and services over a number of years.	<ul style="list-style-type: none"> <li>♦ OAGI investigated and found evidence of systemic fraud and collusion. After extensive analysis of documents and records, it was established that the proprietors of three firms had colluded to fabricate false bids—using false names, addresses, and “ghost” firms—resulting in one vendor winning the majority of the bids.</li> <li>♦ OAGI determined two individuals, in collusion with the proprietor of the winning vendor, had engaged in a fraudulent practice by fabricating at least 10 losing quotations.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC sanctioned the winning firm and the two losing firms for 7 years. The proprietors of the three firms were sanctioned indefinitely.</li> <li>♦ OAGI has made a series of recommendations to strengthen internal controls that help prevent and deter such fraudulent practices.</li> </ul>
An OAGF audit identified procurement fraud in an ADB business unit. It was suspected that a contractual staff member of the ADB business unit was also involved in these practices.	<ul style="list-style-type: none"> <li>♦ Three firms and their proprietors had colluded to fabricate false bids by using false names, addresses, and “ghost” firms, which resulted in one vendor winning the majority of the bids.</li> <li>♦ The contractor, prior to commencing work for the business unit, had been the part-owner of one of the sanctioned firms when it first started submitting fraudulent bids. After joining the business unit, this individual had an ongoing involvement with the procurement process resulting in that firm winning the majority of bids. OAGI also found that this individual had engaged in other fraudulent and obstructive practices.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC debarred the three individuals indefinitely and the three firms for 7 years.</li> <li>♦ The IOC sanctioned the contractor indefinitely.</li> <li>♦ OAGI is continuing its investigations into other related matters.</li> </ul>

Continued on next page

Allegations	Investigative Findings	Case Resolution
<b>CORRUPTION</b>		
<b>Bribery</b>		
Government officials were bribed.	<ul style="list-style-type: none"> <li>◆ In 2007, the IOC sanctioned Individual X and Firms A and B for bribing a government official to obtain confidential information about an ADB-financed tender.</li> <li>◆ OAGI subsequently established that Individual X was the sole owner of a Firm C, and that the Proprietor Y of sanctioned Firm A, who had not been sanctioned as an individual was, on the balance of probabilities, aware of and involved in the bribery.</li> <li>◆ OAGI recommended that the IOC include Firm C and Proprietor Y under the previous sanction.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC sanctioned Firm C for 7 years and Proprietor Y indefinitely.</li> </ul>
PPRA findings revealed that a vendor had sold one scientific instrument to the EA for three times its recommended retail price.	<ul style="list-style-type: none"> <li>◆ OAGI found that the vendor had inflated the price of the first instrument to cover the payment of a significant third-party commission to an EA official.</li> <li>◆ OAGI considered the payment of a commission of this nature as an attempt to influence the actions of the EA official concerned improperly, most probably in an attempt to secure the contract for the additional 25 units.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC sanctioned the vendor for 5 years.</li> <li>◆ Two individuals associated with the transaction were also sanctioned—one for 5 years and the other indefinitely.</li> </ul>
PPRA findings showed that construction was only 50% complete, although the contract was fully paid.	<ul style="list-style-type: none"> <li>◆ OAGI found that two firms and two individuals admitted to paying bribes to government officials to obtain the contract and receive unsubstantiated payments during execution of the contract.</li> <li>◆ OAGI also found that one firm misrepresented work done by submitting a works completion certificate prior to completion of the building.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC sanctioned the two firms for 7 years and the two individuals indefinitely.</li> </ul>

*Continued on next page*

Allegations	Investigative Findings	Case Resolution
PPRA findings indicated possible collusion among bidders.	<ul style="list-style-type: none"> <li>♦ OAGI found that three firms colluded in the preparation of bids. The three bids were similar, and payment orders and advices of the three bidders appear to have originated from the same source and were part of the same sequence.</li> <li>♦ Two of the firms admitted to paying bribes to government officials to secure the contract.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC sanctioned the three firms for 7 years and the two individuals indefinitely.</li> </ul>
<b>OTHERS</b>		
<b>Repeat Violations of the Anticorruption Policy<sup>a</sup></b>		
Sanction violation	<ul style="list-style-type: none"> <li>♦ In 2003, the IOC sanctioned Lead Enterprises, a construction company, for 7 years for submitting a fraudulent certificate of experience in a bid for an ADB-funded contract.</li> <li>♦ OAGI found out that while under sanction, the company used a variation of its name—M/s. Lead Enterprise—to obtain a contract worth \$172,009. The two firms used the same address.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC extended the sanction of Lead Enterprises for another 10 years and agreed to post its name on ADB website.</li> <li>♦ The IOC also sanctioned its proprietor indefinitely.</li> </ul>
Sanction violation	<ul style="list-style-type: none"> <li>♦ M/S Pias Construction (also known as M/S. Piash Construction, M/S Piash Construction, M/S Piash Constr., M/S. Pias Enterprise, Pias Construction, M/S. Pias, and Piash Construction) has been caught violating its sanction on numerous occasions.</li> </ul>	<ul style="list-style-type: none"> <li>♦ The IOC extended its previous sanction to 12 August 2018.</li> <li>♦ The IOC agreed to publish the companies' names on ADB website for violation of sanctions.</li> </ul>

*Continued on next page*

Allegations	Investigative Findings	Case Resolution
Sanction violation	<ul style="list-style-type: none"> <li>◆ Md. Akhter Hossain Talukder was sanctioned as a firm on 16 July 2003 for submitting fraudulent certificates of experience in a bid for a contract funded by an ADB loan. The sanction was for 7 years.</li> <li>◆ While under sanction, a variation of this name, Akhter Hossain Talukder, was used in 2005 to submit a bid for another ADB project.</li> <li>◆ Both names used the same address on the bid submissions and submitted an almost identical completion of works document. There was only a slight variation in the total value listed.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC extended the sanction for the firm to 16 July 2013. As an individual, Md. Akhter Hossain Talukder was sanctioned indefinitely.</li> <li>◆ The IOC agreed to publish the names of the firm and individual on ADB website for violation of sanctions.</li> </ul>
Sanction violation	<ul style="list-style-type: none"> <li>◆ SDC Consulting Co. Ltd, Cambodia, and its owner, Ly Moni Roth, were sanctioned on 31 August 2007 for 3 years and indefinitely, respectively.</li> <li>◆ While under sanction, the firm was included in the expressions of interest of two bidders for an ADB technical assistance project.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The IOC extended the firm's sanction to 10 years and agreed to publish the firm's name and its owner's name on ADB website for violation of sanctions.</li> </ul>
<b>OTHERS</b>		
<b>Misconduct/Conflict of Interest</b>		
Two ADB consultants were in a conflict-of-interest situation.	<ul style="list-style-type: none"> <li>◆ OAGI established that the personal relationship between the two consultants was inappropriate, as one was supervising the other.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The department concerned sent caution letters to the two consultants involved, and removed supervisory responsibilities from the terms of reference of the relevant consultant.</li> <li>◆ OAGI later sought confirmation with the department concerned that consultants were acting professionally in the work place.</li> </ul>

ADB = Asian Development Bank; EA = executing agency; IOC = Integrity Oversight Committee; OAGF = Office of the Auditor General, Financial Administrative and Information Systems Division; OAGI = Office of the Auditor General, Integrity Division; PPRA = project procurement-related audit.

<sup>a</sup> ADB. 1998. *Anticorruption Policy*. Manila.

Note: He/his/him is used for convenience and is not gender-specific.

Source: OAGI.

# Appendix 4

## Significant Cases Involving ADB Staff in 2008

Allegations	Investigative Findings	Case Resolution
<b>CORRUPTION</b>		
<b>Conflict of Interest</b>		
A staff member cheated on his leave applications.	<ul style="list-style-type: none"> <li>◆ OAGI established that the staff member violated ADB's anticorruption policy by misrepresenting information and abusing leave benefits.</li> <li>◆ The staff member's actions also constituted misconduct, violating AO 2.02, section 2.13 and AO 2.04, section 2.1(d), which indicate that ADB staff members are expected to maintain a high degree of integrity and concern for ADB's interests.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI recommended that BPMSD consider taking appropriate disciplinary action in accordance with AO 2.04.</li> <li>◆ Action by BPMSD pending.</li> </ul>
A senior staff member owned an undisclosed private business and was abusing ADB communication facilities to further this private venture.	<ul style="list-style-type: none"> <li>◆ The allegations lacked specific details and appeared to be malicious in intent. Without additional leads or more specific information, OAGI could not verify the allegations.</li> <li>◆ The complainant did not provide any contact information, thus causing OAGI to question the credibility of the allegations.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI closed the case.</li> </ul>
A staff member influenced the consultancy award process to gain financial benefits.	<ul style="list-style-type: none"> <li>◆ The staff member was not directly involved in the selection of the consultants, which were properly selected in accordance with ADB's guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI reported its findings to BPMSD. No recommendations for disciplinary action were made.</li> </ul>
A consultant stated that his performance was rated unsatisfactory because of defamatory action taken by a staff member after the termination of his undisclosed relationship with the staff member.	<ul style="list-style-type: none"> <li>◆ There was no evidence of staff misconduct that would warrant or justify OAGI's intervention.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI reported its findings to COSO and recommended that the consultant performance evaluation process proceed.</li> </ul>

Continued on next page



Allegations	Investigative Findings	Case Resolution
<b>CORRUPTION</b>		
<b>Other</b>		
A senior staff member attempted to include, in a project, a component that would benefit a close relative's business; abused representational privileges by claiming reimbursement for payments made to this business; and fraudulently claimed a dependency allowance by misrepresenting his spouse's income.	<ul style="list-style-type: none"> <li>◆ There was insufficient evidence to establish abuse or misrepresentation.</li> <li>◆ OAGI could find no impropriety in relation to the claimed dependency allowance.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The senior staff member was cautioned about using the business as a supplier.</li> </ul>
<b>ABUSE OF POSITION/ADB RESOURCES</b>		
Two senior staff members, in a conflict of interest situation, used ADB official missions to accommodate personal, nonbusiness-related interests.	<ul style="list-style-type: none"> <li>◆ OAGI reviewed all travel documents and concluded that the mission trips undertaken were work-related and appropriately authorized.</li> <li>◆ Expenses incurred were consistent with the missions' purposes, liquidated in accordance with ADB policies and procedures, and supported by appropriate documentation.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI reported its findings to BPMSD and closed the case.</li> </ul>
A staff member referred only his favored service providers to other staff members, raising the possibility that he was receiving undisclosed commissions.	<ul style="list-style-type: none"> <li>◆ OAGI did not find evidence of any collusive or corrupt practice by the staff member.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI discussed the appearance of impropriety with the department concerned.</li> <li>◆ The department put in place alternative approved service providers, to provide staff with transparent options.</li> </ul>
Two staff members engaged in inappropriate activity on ADB premises.	<ul style="list-style-type: none"> <li>◆ The staff members used ADB assets and resources inappropriately and behaved unprofessionally in the workplace.</li> </ul>	<ul style="list-style-type: none"> <li>◆ BPMSD cautioned the two staff members, and required the department concerned to realign duties of one to avoid further conflict of interest.</li> </ul>

*Continued on next page*

Allegations	Investigative Findings	Case Resolution
<b>FRAUD</b>		
<b>Medical Insurance</b>		
A staff member obtained a benefit from a health provider as an incentive to consider it favorably in contract negotiations.	<ul style="list-style-type: none"> <li>◆ OAGI established that the staff member improperly obtained a refund for medical expenses from the insurer.</li> <li>◆ When OAGI interviewed the staff member, he offered to refund the full amount to ADB.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The staff member resigned from ADB and was denied continuation of ADB health insurance coverage.</li> <li>◆ ADB recovered \$86 from the staff member.</li> </ul>
The staff member was actively involved in the hiring of the health provider.	<ul style="list-style-type: none"> <li>◆ OAGI established that there was no link between the reimbursement and contractual negotiations. It was not the intention of the health provider to improperly influence the staff member.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The health provider has drafted an approved patient refund policy and form</li> </ul>
<b>OTHERS</b>		
<b>AO Violation</b>		
A staff member worked on external consultancies without appropriate authorization.	<ul style="list-style-type: none"> <li>◆ OAGI established that the staff member did hold part-time employment outside office hours without proper authorization.</li> <li>◆ The staff member violated AO 2.04 by knowingly making false statements to OAGI in the course of the investigation.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI recommended that BPMSD take appropriate disciplinary action in accordance with AO 2.04.</li> <li>◆ Upon completion of disciplinary proceedings, BPMSD suspended the staff member for 2 weeks and demoted him one level.</li> </ul>
A staff member was downloading sexually graphic visual content and unauthorized key-logging software on his ADB computer.	<ul style="list-style-type: none"> <li>◆ The staff member's personal use of ICT resources went beyond the scope of AO 4.05 paragraph 5.3, and was considered prohibited use under AO 4.05 paragraph 5.4, as well as an abuse of ADB resources.</li> <li>◆ His use of key-logging software for personal purposes violated ADB's ICT Security Rules and Regulations (Appendix 1 of AO 4.05).</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI recommended that the staff member be dismissed.</li> <li>◆ Upon completion of disciplinary proceedings, BPMSD suspended the staff member for 4 weeks and demoted him one level.</li> </ul>

*Continued on next page*

Allegations	Investigative Findings	Case Resolution
A staff member forwarded unpublished ADB information to a non-ADB person without approval.	<ul style="list-style-type: none"> <li>◆ OAGI established that the staff member engaged in misconduct in violating AOs 2.02 and 4.08 through forwarding internal ADB documents to a non-ADB person.</li> <li>◆ OAGI found that the information shared by the staff member constituted a continuing security risk to ADB's business interests.</li> </ul>	<ul style="list-style-type: none"> <li>◆ OAGI recommended that BPMSD take appropriate disciplinary action in accordance with AO 2.04.</li> <li>◆ OAGI also recommended that the staff member be placed on administrative leave immediately to mitigate continued unauthorized release of information, pending further determination on disciplinary action by BPMSD.</li> <li>◆ BPMSD initiated disciplinary proceedings and placed the staff member on administrative leave immediately.</li> <li>◆ Results of the disciplinary proceedings pending.</li> </ul>

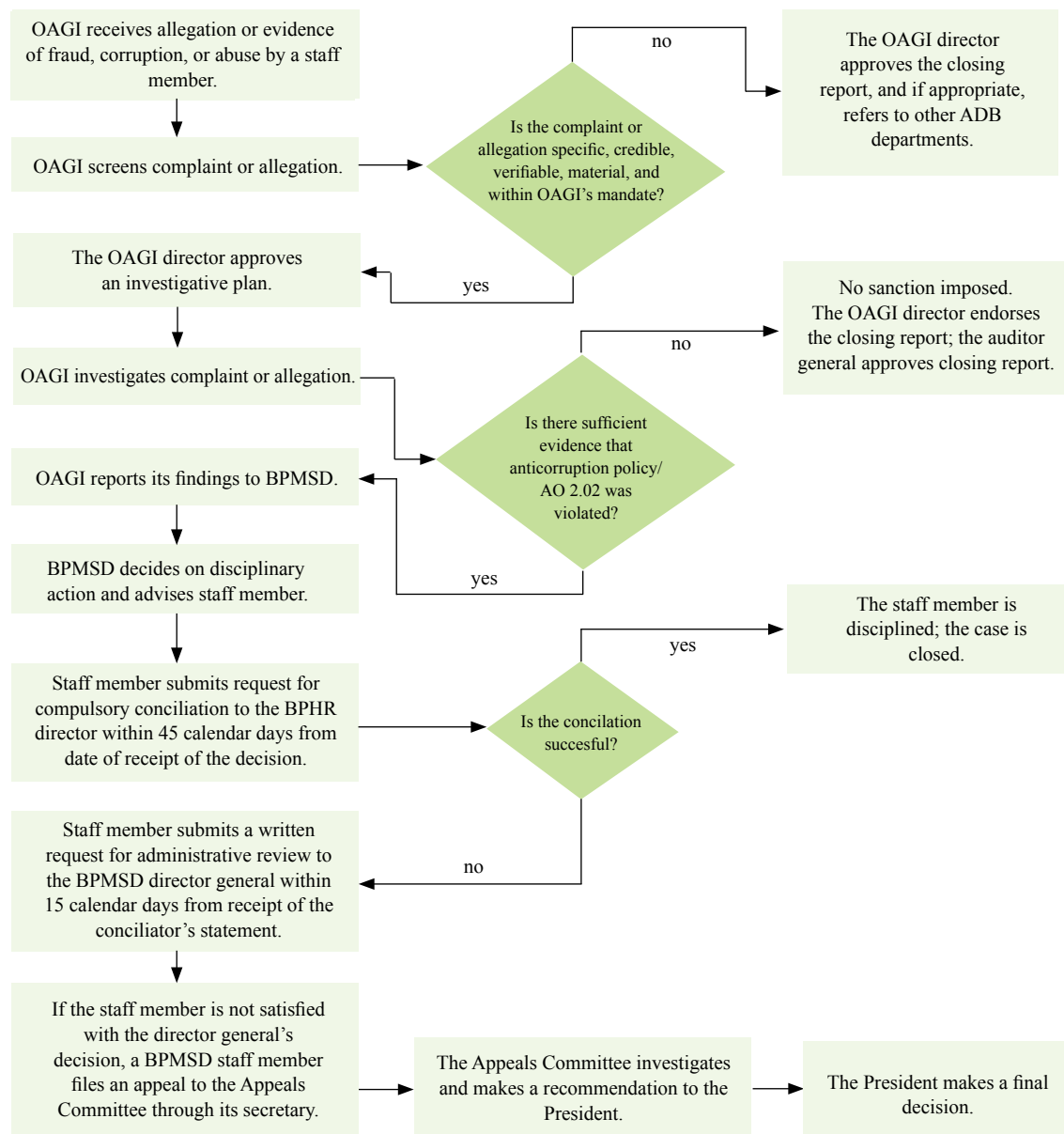
ADB = Asian Development Bank; AO = Administrative Order; BPMSD = Budget, Personnel and Management Systems Department; COSO = Central Operations Services Office; ICT = information and communication technology; OAGI = Office of the Auditor General, Integrity Division.

Note: He/his/him is used for convenience and is not gender-specific.

Source: OAGI.

# Appendix 5

## ADB Process for Dealing with Allegations of Fraud, Corruption, or Abuse by ADB Staff



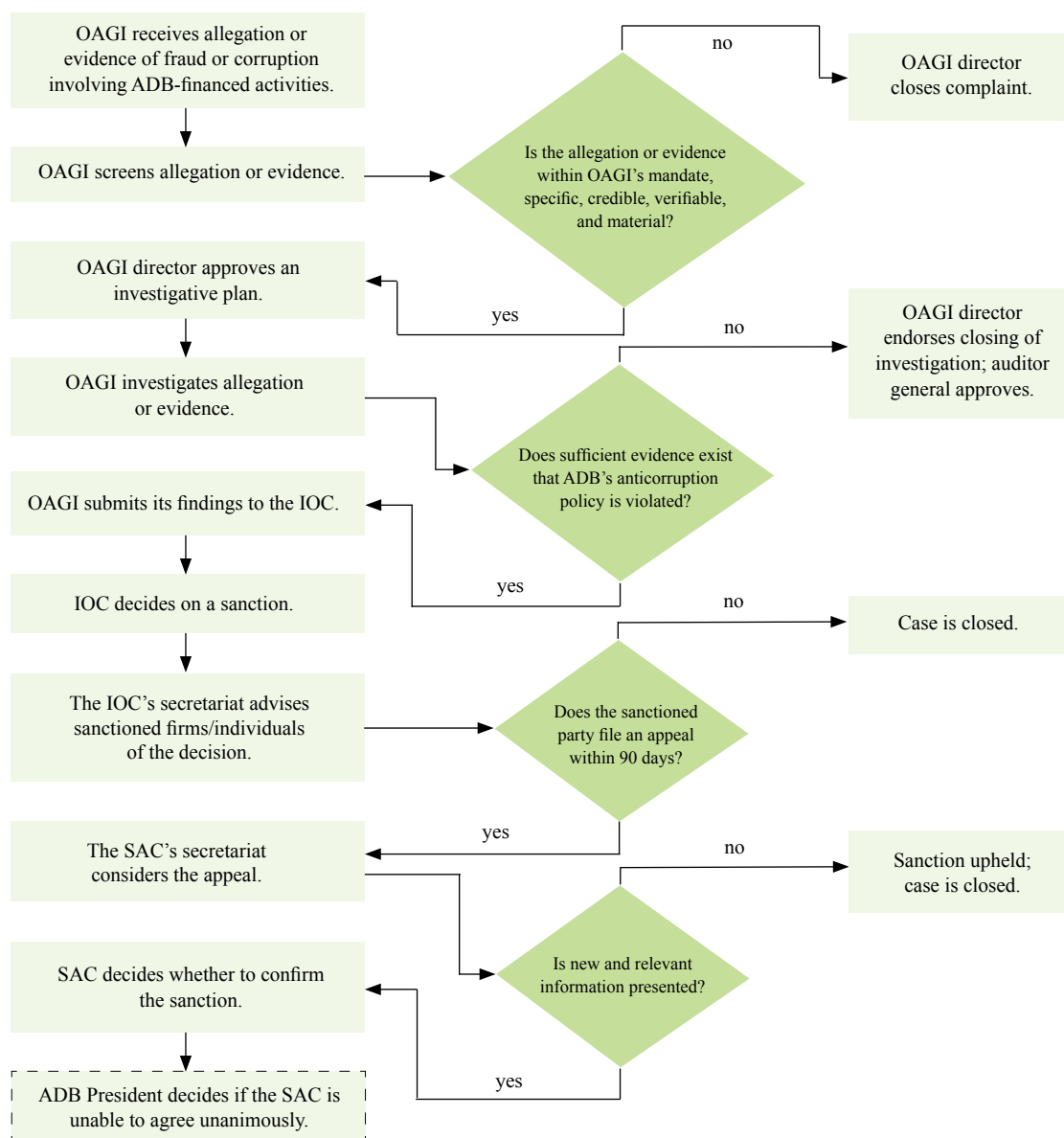
The flowchart is not intended to, and does not replace, modify, supersede, or amend ADB's *Integrity Principles and Guidelines*.

ADB = Asian Development Bank; AO = Administrative Order; BPHR = Human Resources Division; BPMSD = Budget, Personnel, and Management Systems Department; OAGI = Office of the Auditor General, Integrity Division.

Source: OAGI.

# Appendix 6

## ADB's Process for Dealing with Allegations of Fraud or Corruption Involving Bidders, Consultants, Contractors, Suppliers, or Other Third Parties to ADB-Financed Activity



The flowchart is not intended to, and does not replace, modify, supersede, or amend ADB's *Integrity Principles and Guidelines*.

ADB = Asian Development Bank; IOC = Integrity Oversight Committee; OAGI = Office of the Auditor General, Integrity Division; SAC = Sanction Appeals Committee.

Source: OAGI.

## How to Report Fraud or Corruption

Contact the Office of the Auditor General, Integrity Division (OAGI) to report concerns or suspicions of fraud or corruption that may have occurred or is occurring in any Asian Development Bank (ADB)–financed or –supported activity. Information concerning the identity of a complainant is strictly controlled and kept confidential. Information will not be released to other ADB staff members or to anyone outside of ADB without the consent of the complainant.

When reporting concerns, please provide as much information and detail as possible, including **who, what, when, where, why, and how** the fraud or corruption occurred. The more specific the allegation and the more substantial the evidence, the more likely it is that OAGI will be able to successfully investigate the matter.

For further guidance, see [www.adb.org/Integrity/whatto.asp](http://www.adb.org/Integrity/whatto.asp).

- ◆ Telephone: +63 2 632 5004 (note that this is not a toll-free number, and normal local or long-distance telephone charges will apply)
- ◆ E-mail: [integrity@adb.org](mailto:integrity@adb.org) or [anticorruption@adb.org](mailto:anticorruption@adb.org)
- ◆ Fax: +63 2 636 2152 (note that this is not a toll-free number, and normal local or long-distance telephone charges will apply)
- ◆ Online form: [www.adb.org/Integrity/complaint.asp](http://www.adb.org/Integrity/complaint.asp)
- ◆ Postal address: Office of the Auditor General  
Integrity Division (OAGI)  
Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines
- ◆ In person: OAGI is located on the third floor, North Core of ADB Headquarters,  
6 ADB Avenue, Mandaluyong City, Philippines.

## **OAGI Annual Report 2008**

This report describes the mandate of the Asian Development Bank's Integrity Division, Office of the Auditor General (OAGI), its processes and procedures; and its achievements in 2008. It features summaries of cases screened and investigated in 2008. It also describes OAGI's 2008 recommendations to ADB management, operational departments, and other entities; outreach and communication initiatives to advance awareness of and understanding of the anticorruption policy; learning and development activities for both OAGI staff and ADB partners; and continued collaboration and coordination endeavors with other multilateral development banks.

This report includes a section on challenges ahead for OAGI, including discussions on workload and resources; information technology, data management, and analysis; supporting Strategy 2020; and OAGI independence and administration. A section on whistle-blower protection is also discussed in this report.

## **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor. Nearly 877 million people in the region live on \$1.25 or less a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.